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ABSTRACT

Some of the responses of colleges and universities to declining enrollments and diminishing resources are reviewed. Institutions have tried to reduce the size of their operations, reallocate resources internally, and retrench a number of faculty and programs. Several approaches to reductions, reallocations, and retrenchments in specific cases, including those at the University of Michigan, the University of Pennsylvania, and the Pennsylvania State College System, are reviewed. Nine observations about trends in institutional behavior as colleges and universities approach the decade of the 1980s are presented, including: there is a need to be more sophisticated about projected enrollment declines since they and their impacts will vary by region of the country; national concentration on projected enrollment declines has diverted attention from the equally-important area of the "cost-income squeeze;" and traditional governance patterns in colleges and universities are not well-equipped to handle faculty participation in an era of declining resources. It is concluded that only a few institutions, which either are geographically located in areas of population growth or have exceptionally high academic reputations, will escape the consequences of the long-run changes facing higher education. Appended are: checklists for academic quality assessment and program evaluation; guidelines for use in planning retrenchment in the state colleges and university of Pennsylvania; 1976 recommended institutional regulations on academic freedom and tenure; policy document on discontinuance of academic programs at the University of Michigan; and financial exigency and staff reduction statement of the Association of American Colleges. A bibliography is included. (SW)

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REPORT

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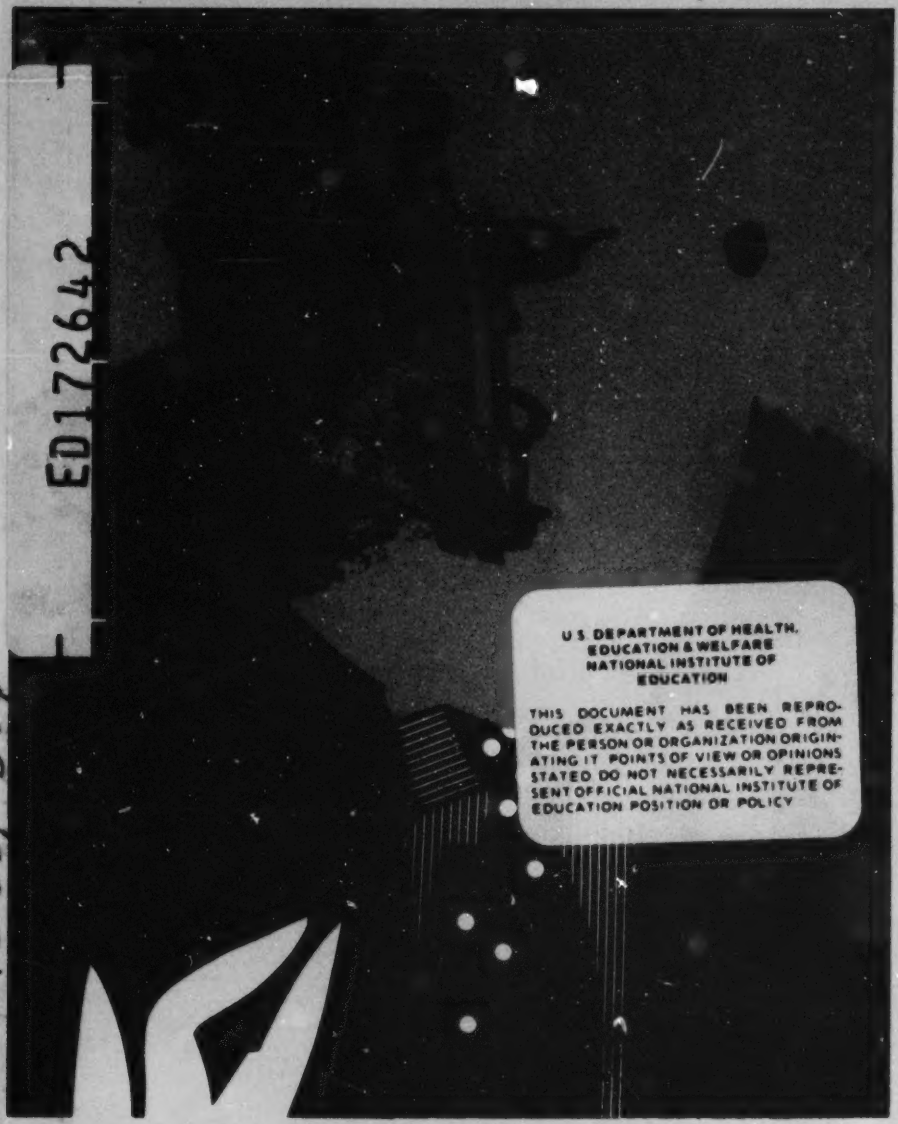
Kenneth P. Mortimer and Michael L. Tierney



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Betty Meek supervised the typing and preparation of the manuscript, with able assistance from Marilyn Downing and Patricia Duich. Their patience in helping us muddle through various drafts is appreciated.

Foreword

In 1972 Kenneth P. Mortimer, then Assistant Professor of Education and Research Associate at the Center for the Study of Higher Education at The Pennsylvania State University, authored the first numbered monograph of the AAHE-ERIC/Higher Education Research Report Series. Entitled *Accountability in Higher Education*, this report went into five printings and established new understanding of institutional and individual responsibility to account for their performance.

With this report Dr. Mortimer, now Professor of Education and Director, joining with Michael L. Tierney, Assistant Professor and Research Associate at the Center for the Study of Higher Education, Pennsylvania State University, returns to the Research Report series to address an equally important issue: What are the alternatives to the prospects of declining enrollments and diminishing resources?

Their conclusions are that only a few institutions, who either are geographically located in areas of population growth or have exceptionally high academic reputations, will escape from the consequences of the long-run changes facing higher education. The rest must face the inevitable. How the institutions react now in planning for reductions in their growth rate and budget base; how they handle internal program reallocation; and how they involve the faculty in developing redistribution and/or reduction schedules will determine their survival.

The authors present a considerable number of recommendations on how this planning can be accomplished. They also include in the appendix checklists, guidelines and policy recommendations developed by institutions and higher education associations that will be useful as institutions begin the unpleasant task of preparing for the future.

Jonathan D. Fife, Director
ERIC® Clearinghouse on Higher Education

Contents

Overview 1

Introduction 3

The Environment of Postsecondary Education in the 1980s 5
The Demographics 5
Trends in Institutional Revenues 8
Trends in Institutional Expenditures 16
Long-Run Financial Equilibrium 22

Reductions, Reallocations, and Retrenchments 24
Reductions in Growth Rates 25
Reductions in the Budget Base 27
Internal Reallocations 29
Program Review as Resource Reallocation 32
Staff Reductions, Dismissals, and Retrenchment 35
Program Discontinuance 44
Financial Exigency 49

Summary and Conclusions 52

Appendix A—Checklists for Academic Quality Assessment and Program Evaluation 57

Appendix B—Guidelines for Use in Planning Retrenchment In the State Colleges and University of Pennsylvania 62

Appendix C—1976 Recommended Institutional Regulations On Academic Freedom and Tenure 65

Appendix D—Policy Document on Discontinuance of Academic Programs at the University of Michigan 69

Appendix E—Financial Exigency and Staff Reduction 74

Bibliography 77

Tables

Table 1. Sources and percent of Operating Revenues for 1973-74 by Institutional Control and Type 9

Table 2. Actual and Projected Operating Revenues of a Public and Private University for 1974-75 and 1984-85 15

Table 3. Educational and General Expenditures Per Weighted FTE Student 17

Table 4. Estimated Social Security Contributions 19

Table 5. Projected Operating Expenditures for a Public and Private University 21

Table 6. Combined Operating Revenues and Expenditure Projections at a Public and Private University in 1984-85 22

Table 7. Operating Budget Expenditures 26

Table 8. Criteria for Evaluation of Existing and Proposed Programs 33

Overview

The predominant theme of the 1960s was quantitative growth — that is, the development of new programs and the physical expansion of old ones. The emergent theme of the 1980s must be qualitative growth. This management of qualitative growth will permit a reordering of priorities and provide an opportunity for colleges to concentrate on inner growth and educational enrichment.

This paper reviews the major conditions of the environmental milieu in which colleges and universities will have to function. Some of these conditions include:

- A national decline of fifteen to twenty percent in the number of eighteen year-olds between 1980 and 1990. This decline will vary greatly by region of the country and will impact differentially on institutions depending on the strength of their competitive positions and other factors.
- Institutional costs are likely to continue to rise faster than revenues.
- Changes in student preferences, which historically have proven to be unpredictable, seem to be directed toward more "career-oriented" curricula.

This paper reviews some of the responses colleges and universities have tried to make to these changing conditions. Institutions have tried to reduce the size of their operations, reallocate resources internally, and retrench a number of faculty and programs. Reductions have included attempts to control and limit the rate of growth in faculty salaries and other expenditures and to shrink the base budget of the institution. Internal reallocations have been made to cover rising energy and social security costs, as well as to cover fluctuations in student preferences among academic programs. Institutions have also engaged in staff reductions, dismissals for conditions of financial exigency, retrenchment, and program discontinuance.

The paper also reviews several approaches to reductions, reallocations, and retrenchments in specific cases, including those at the University of Michigan, the University of Pennsylvania, and the Pennsylvania State College System. Leading statements on procedures to be followed in cases of dismissals, program closures, and retrenchments are presented and analyzed.

The paper concludes with nine observations about trends in in-

stitutional behavior as colleges and universities approach the decade of the 1980s, including:

- There is a need to be more sophisticated about projected enrollment declines, since these declines will vary substantially by region of the country and their impact will be more severe in some institutions than others due to the superior competitive position of some colleges and universities.
- National concentration on projected enrollment declines has diverted attention from the equally important area of the "cost-income squeeze."
- Institutions will need to develop strategies for and conduct major efforts to recapture flexibility in the 1980s.
- Traditional governance patterns in colleges and universities are not well equipped to handle faculty participation in an era of declining resources.
- Institutions should strive to develop a consistent philosophy that will synthesize its strategy for the 1980s. A crucial ingredient in this consistent philosophy is goals that have operational meaning.

Introduction

American postsecondary education is approaching its first sustained experience with deceleration of growth. The Carnegie Council reports that "It may not be exactly un-American for an institution in the United States to be intent on growth, but it certainly has been uncharacteristic" (1975, p. 133).

The major opportunities for colleges and universities as they approach the eighties will require some reordering of programs and priorities. The case is well stated by Cartter.

> The predominant theme of the 1960s in higher education was quantitative growth—development of the new programs and institutions and physical expansion of old ones to serve a rapidly expanding young audience. The emergent theme of the late 1970s and 1980s must be qualitative growth—strengthening of educational processes, adaptation to new social needs and new audiences, and effective use of scarce resources. Because academic budgets in the past have depended principally on enrollments, some view with alarm the prospect of a declining college-age population. Yet such a period permits a reordering of priorities and provides an opportunity for colleges and universities to place high on the agenda efforts to provide inner growth and educational enrichment. The resilience of educational institutions will be tested in their responses to these changing needs and resources (1975, p. xi).

This monograph reviews the conditions that will make the 1980s such a unique decade for American postsecondary education. The first major section reviews major conditions of the environmental milieu in which colleges and universities will have to function: declining numbers of college-age youths, trends in institutional revenues, inflation rates, and trends in institutional expenditures. The major heuristic devices in this section are a set of projections culminating in figures which demonstrate that in two sample institutions, a public and a private university, annual budget gaps of $3.8 million and $7.3 million, respectively, are likely by 1984-85 *if no corrective action is taken.* (We have been quite conservative in our estimates.)

The second major section of the paper reviews major strategies or tactics being used by some institutions to cut expenses, including reductions in growth rates, reductions in the budget base, changes in student-faculty ratios, internal reallocations, program review, staff reductions and dismissals, and program discontinuance. Many of these topics include a review of relevant national or institutional

policy statements on processes and criteria for accomplishing action. A few of these statements are included in the appendices.

A summary section states some conclusions that are justified by the discussion. In a final section, we argue that the conditions cited here require more definite bases for establishing institutional philosophies if colleges and universities are to shape their future rather than simply respond to environmental changes.

The Environment of Postsecondary Education in the 1980s

Projecting future conditions is a hazardous business. It was not too long ago that knowledgeable observers were predicting that the United States would face a shortage of qualified college and university teachers. As it turned out, these experts had "drawn hasty conclusions from imperfect data" (Cartter 1965, p. 7). Despite such hazards, projections of future conditions are necessary if institutions are to develop plans for adapting to changing circumstances. Assessment of probable environmental conditions should not be confused with institutional planning. The former initiates the planning process; it is not a substitute for it.

The discussion will focus on three areas: (1) enrollments, (2) institutional revenues, and (3) institutional expenditures. For the most part, trends in college-age cohort demographics are well established. For instance, the headline in a recent *Chronicle of Higher Education* proclaimed "The Enrollment Roller Coaster: Colleges Fear the Big Dip" (Magarrell 1978). Less widely discussed, more uncertain, but equally important, are trends in revenues and expenditures. Our approach to these latter projections has been, for the most part, the most simplistic; we have extrapolated from recent experience. Our intention is to provide rough approximations for the "average" institution, even though we recognize that there are enormous variations between institutions.

The Demographics

Predictions about the college student population in the 1980s usually concentrate on its probable size rather than its nature; e.g., numbers not composition of interests. As is shown below, the numbers will vary by region and state and are based on children already born. The major "unknowns" in the numbers game have to do with such social forces as college participation rates, the draft, and the general health of the economy. Another major unknown only partially related to numbers is what the curricula emphases of these students are likely to strike between various programs.

According to the *Chronicle* article, the demographic forecast is for a 19 percent national decline in the number of eighteen year-olds between 1980 and 1990. Cartter (1976) estimates that the decline in the traditional college-age cohort (18-to-21-year-olds) will be a some-

what smaller 15 percent. Neither percentage is comforting nor is it temporary. If one were to look beyond 1990, the potential pool of college students will have declined 6 to 15 percent by the year 2000, and by 5 to 12 percent by the year 2020 (Cartter 1976). Cartter concludes by stating that "we cannot expect population growth to add to the growth of college enrollments beyond what will happen over the next several years (1976, p. 40)."

These gloomy forecasts are not unanimously accepted. Bowen (1975) argues that by expanding the definition of the potential college student population beyond 18-to-21-year-olds to the entire population, it is conceivable that the present full-time enrollment would be doubled by the year 2000. Other projections are not as optimistic, but do involve different assumptions about societal developments (Carnegie 1975, pp. 141-147).

While these "nontraditional" students may pick up the enrollment slack in some urban institutions, they are not likely to be the saviors of postsecondary education. First, approximately five part-time students are required to produce the same number of credit hours as one student enrolled full-time (Cartter and Solmon 1976). It is doubtful that there will be enough adult students to cover declines in the college-age group of the size anticipated. Second, even with financial asistance, most adults are not willing to spend their leisure time in the classroom. General Motors Corporation, for instance, has a tuition remission program amounting to $900 per employee. Yet only one-tenth of 1 percent of the employees avail themselves of the opportunity. Despite the fact that it might be good social policy to encourage the development of each person's potential, it is probably the case that a large proportion of the "adult" population is indifferent to a postsecondary education.

A second argument against the "big dip" prediction is based on increased rates of college matriculation. Noting that in several states over 50 percent of the college-age cohort matriculate at some postsecondary institution, Bowen (1975) also argues that it would be possible to double college enrollment in the year 2000 by making these participation rates a national phenomena; however, the trends have been in exactly the opposite direction. Cartter (1976) notes that probably due to the end of the military draft, college participation rates began declining in 1971. By 1974, only 34 percent of white 18-to-19-year-olds were in college, although the percentage of blacks enrolled in college had increased to 23 percent (Winkler 1975).

Some of these declines in the college matriculation rates may be explained by the "over-educated American" phenomena. Freeman

(1976) argues that going to college may no longer be a rational investment on the part of the student and his or her parents. Consequently, as the rate of return on the college investment declines to 7 or 8 percent, potential students will decide to forego college. The exception to the phenomena are black students who will face improved labor market opportunities as college graduates. Following this line of argument, Stephen Dresch is reported in the same *Chronicle* article to have said that "all of the portents are for a decline (in enrollment) that is greater than the decline in the size of the age cohort" (Magarrell 1978, p. 14).

These differences of opinion concerning the enrollment possibilities for the 1980s point to the difficulties in projecting the future conditions of postsecondary education. Although individual institutional circumstances may vary tremendously, it seems likely that there will be a national decline of about 15 percent in the level of enrollment in the 1980s. This position rests on the assumption that the gains in enrolling "nontraditional" students will be somewhat offset by the declining participation rates of the traditional college-age cohort. However, from the point of view of the individual institutions, the debate over *national* trends is not as critical as the likely enrollment possibilities in their geographical areas. At this point, there are some relatively clear trends developing.

The United States is experiencing a substantial population shift as more people move from the highly industrialized northeast to the "sun-belt" states. In its September 5, 1978 issue, The *Chronicle of Higher Education* presents a map of the states that expect to gain in the number of 18-year-olds, and states expected to lose or remain the same (Magarrell 1978, p. 1). As an example, it is instructive to compare the trends in the number of 18-year-olds nationwide with those for the state of Pennsylvania. As was indicated above, it is estimated that for demographic reasons alone, there will be a 19 percent decline in the number of 18-year-olds nationwide during the 1980s. In Pennsylvania, the estimated decline in the number of 18-year-olds is almost 30 percent. The primary reason underlying this differential is the fact that Pennsylvania is experiencing a net out-migration across most age-groups. Further, estimates of out-of-state migration rates are based on 1960-1970 census data. It is likely that the 1970-1980 census data will show an acceleration in these net out-migration rates. In either case, the "big dip" is relatively more serious for certain states and geographical regions than others.

Even though there will be an overall decline in college enrollments, it is probable that some institutions will be able to maintain their

current enrollments, even some of those located in areas experiencing demographic problems. The Carnegie Council has estimated that universities and public community colleges will have "above average" capacity to make selective adjustments to new conditions in postsecondary education and to respond to competitive pressures (1975, pp. 74-75). Highly selective liberal arts colleges are likely to have "average" capacity in this regard, whereas comprehensive colleges and universities are not quite so well situated. The less selective liberal arts colleges and private two-year colleges are likely to have below average capacity to respond to demographic decline and changes in student demand.

Another major factor in the uncertainty of the 1980s is changing student preferences to more job-oriented curricula and changing patterns of majors. For instance, there appears to be a trend in liberal arts colleges to merge liberal arts curriculum with more vocationally-oriented programs, and this tends to alter the types of courses that must be offered. Consequently, changes in both major and course preferences in and of themselves will produce substantial pressure for internal resource reallocation.

The preceding discussion emphasizes the probable decline in the overall level of college enrollments. American postsecondary institutions have faced periods of enrollment shifts before (Carnegie Foundation 1975; Henry 1975; and Rudolph 1962). However, there is no historical precedent for the fast deceleration of growth projected through 1990 or the slow- or no-growth of the 1990s. These characteristics alone will make the 1980s memorable. What will make the forthcoming era truly unique is that it will combine shrinking enrollments with expenditure pressures that threaten to outrace the growth in institutional revenues.

Trends in Institutional Revenues

The various activities of a college or university are financed through revenues derived from a variety of sources. Table 1 displays these sources for types of public and private institutions. While this table typifies the standard income statement, it is highly aggregated and represents only one point in time. The purpose in presenting this data is not so much to describe where institutions have obtained their revenues in the past, but to lay the foundation for projecting how these sources of support might change over the next ten years. By modifying the financial figures of a public and private university, an outline of the fundamental revenue and expenditure issues con-

fronting college administrators can be developed. The following sections discuss each of these revenue sources in more detail.

Table 1. Sources and Percent of Operating[1] Revenues for 1973-74 by Institutional Control and Type

Source	Public 2-Year	Public 4-Year	Public University	Private 2-Year	Private 4-Year	Private University
Tuition & Fees	14.0	16.6	14.3	68.5	55.0	31.1
Federal Govt.	6.6	12.6	22.1	5.8	13.8	30.6
State & Local Government	76.6	61.8	44.6	2.8	2.5	3.8
Gifts	0.3	1.5	2.6	17.0	13.4	9.1
Endowment Income	0.1	0.1	0.7	2.3	5.2	6.1
Other	2.4	7.4	15.7	3.6	10.1	19.4
Total Income (in millions of dollars)	3313.2	4979.9	10256.2	221.8	4086.5	4542.8

Source: Computed from data in Susan C. Nelson, "Financial Trends and Issues." In *Public Policy and Private Higher Education*, edited by D. W. Breneman and C. E. Finn. Washington, D.C.: The Brookings Institution, 1978.

[1]Operating revenues include all revenues derived for Educational and General Purposes. Excludes revenues for capital program, student aid, and auxiliary enterprises.

Tuition and Fees — The direct impact of the "big dip" is that revenues from tuition and fees will decline solely due to a decline in the number of persons paying that tuition. A glance at Table 1 indicates that such decline is relatively more serious for private institutions, particularly two-year and four-year colleges. This cursory glance prompts the often-stated fear that demographic trends alone foreshadow the demise of these institutions, especially the less prestigious or "invisible" ones. However, the survival of the less selective liberal arts colleges may depend on a number of other factors such as its religious affiliation and the uniqueness of its academic programs.

Nonetheless, the distinction between public and private institutions remains critical. Private institutions have protested what they consider to be unfair price competition on the part of public subsidized institutions; however, since the late 1960s, there has been a relative stability in the competitive position of private institutions vis-à-vis

public ones. The three pillars of this stability have been: (1) approximately equal rates of increase in tuition within these two sectors; (2) disposable family income increased at approximately the same rate as the absolute difference between public and private tuitions; and (3) a substantial increase in various types of student aid (Minter and Bowen 1977). Erosion in any one of these pillars may adversely affect this relative stability.

Public institutions are placed in double jeopardy by the anticipated decline in enrollments. The direct impact of such decline would appear immediately in tuition and fee revenues. The indirect impact would occur in revenues derived from state appropriations, especially in those states employing enrollment-driven funding formulas. Hollander (1978) advocates the development of "enrollment-related alternatives" to the present "enrollment-driven" budget model that would strengthen institutions given expected enrollment trends.

Difficult public policy decisions lie ahead (Breneman and Finn 1978). One alternative is to make public institutions more like private ones by promoting equality of student choice through expanded financial aid programs. However, most financial aid (with the exception of direct grants to students) has been "campus-based." Consequently, institutions must contribute some of their own resources to such financial aid programs as college work-study. During the 1960s, these contributions grew at such a rate as to require diverting otherwise unrestricted revenues to financial aid programs. The "rule of thumb" among private colleges during the 1960s was that 30 percent of any increased revenues from tuition had to be put aside for student aid costs. That "rule of thumb" now stands, according to one private college president, at 40 percent. The resulting "student-aid subsidy gap" constituted one of the fastest growing elements in an institution's cost structure (Jenny and Wynn 1970).

A second alternative is to make private institutions more like public ones by increasing direct institutional aid. Such an approach, however, raises serious issues concerning the ability of the private sector to maintain its autonomy. Our discussion, however, is directed at institutional, not social issues.

The institution's revenue-oriented solution to the enrollment-induced decline in tuition and fees is to increase the tuition charged to the students who do enroll. This option, however, ignores the degree of student sensitivity to changes in tuition. Many of the studies of tuition sensitivity have found that an increase in tuition decreases the probability that a student will enroll (Jackson and

Weathersby 1975). Unfortunately, most institutions do not know just how sensitive their students are to changes in tuition. Such information is extremely difficult to acquire, partly because an institution faces more than one set of tuition sensitivities due to the varying degrees of uniqueness of its several academic programs (Jenny 1967).

Federal Government Appropriations — In January 1978, President Carter proposed spending $3.6 billion for basic research, an increase of 8 percent over appropriations for the 1977-78 fiscal year (Fields 1978). In real terms, this budget request represented a 5 percent increase over the preceding year's appropriation. The appropriation request was welcome news to both public and private institutions, particularly the federal grant universities. It marked a reaffirmation of a belief in basic scientific research, a belief that had been held in disrepute during the Nixon administration and the era of the "golden fleece awards." However, the euphoria of January had been replaced in June by dismay as the House Appropriations Committee slashed more than $40 million from the proposed National Science Foundation appropriation.

Appropriations for basic scientific research are extremely hard to predict. Cheit (1971) notes that federal funds obligated to colleges and universities increased at a relatively rapid rate in the early- and mid-sixties, only to slow precipitously to 2 percent per year starting in 1968. It is important to note that federal funds never showed an absolute decline during this period, only that the rate of growth in these expenditures was reduced to approximately the rate of inflation. Because the rate of growth and federal research expenditures has been relatively inconsistent, it is difficult to forecast future developments.

While the federal government is giving with one hand, it is contemplating taking away with the other by revising the guidelines for the recovery of indirect costs. According to one federal grant university, the revised Office of Management and Budget regulations would result in a reduction of $2 million in these unrestricted revenues (Roark 1978). Further, institutions would incur substantially increased costs due to the necessity of complying with the more complex set of federal regulations. Both the decreased revenues and the increased costs present a substantial financial problem to the major private and public research universities whose budgets "hang in the balance" (Roark 1978). Because the final guidelines have not yet been published, no attempt was made to estimate the impact of these changes and regulations on the institution's budget. For the

time–being, it will have to remain one of those uncertain factors that make income projecting such a hazardous business.

State Appropriations— Most public institutions are concerned about the impact of a "Proposition 13" mentality. In California, the immediate impact was felt by the community college system, which is funded under a typical foundation program (Martorana and Wattenbarger 1978; McPherran and Barthelme 1975). However, even the prestigious University of California found that it could not escape the fallout of Proposition 13, as the state struggled to redistribute its tax revenues to support essential local services. Most states, however, are not likely to wait for a "Proposition 13" type of referendum to redistribute state prosperity in the form of tax cuts. Postsecondary education has lost its status as a relatively high priority among most state chief executives, who now want to find ways of reducing taxes (Magarrell 1978).

In fiscal year 1976-77, the various states spent over $15 billion for higher education (Coughlin 1977). However, the rate of growth in state appropriations was not constant across states; states in the northeastern portion of the country had substantially lower rates of growth in state appropriations. Further, the increases reflected in state 1976-77 fiscal budgets came after a period of fiscal stringency (Bowen and Glenny 1976). Due to the recession earlier in the decade, most states thought it necessary to curtail expenditures "across-the-board." These reductions forced colleges and universities into relatively severe cutbacks, which had implications not only for the financial condition of the institution but also for the academic quality and vitality of the organization. In the post-Proposition 13 era of the 1980s, public institutions are unlikely to regain the position of high priority they enjoyed in the 1960s.

Private institutions are not indifferent to the state policies towards postsecondary education. In 1975-76, the fifty states allocated a total of $513 million to private institutions (Carnegie Council 1977). This aid came in one or more of the following ways: (1) student financial aid [$311 million], (2) general institutional aid [$131 million], and (3) grants for specific programs or purposes [$69 million]. As state funding priorities shift, it is likely that both public and private institutions will perceive state appropriations as a "zero-sum game" (Berdahl 1978). As in the case of tuition and fee revenues, the several states will face difficult policy decisions concerning the level of state assistance to private higher education, the form in which that assistance will be delivered, and how that assistance will be co-

ordinated with federal programs designed to achieve access to post-secondary education (Blaydon 1978).

Private Gifts — The operations of public and private institutions are partially financed by private philanthropy in two ways: direct and indirect institutional assistance. In 1976-77, direct financial support amounted to over $2 billion in all institutions of higher education. Of these $2 billion, almost 70 percent went to private postsecondary institutions, and almost 60 percent of the total was used for current operating expenses (Magarrell 1978).

Although there are genuine altruistic motives, the economic rationale underlying this philanthropy is not difficult to understand. Both private individuals and business corporations are able to deduct gifts made to charitable institutions from their taxable income. Business organizations are allowed to deduct up to 5 percent of their earnings before interest and taxes. Gifts from both private individuals and business corporations tend to increase in times of economic prosperity and to decline in time of recession.

As can be seen from Table I, private institutions receive from 9 to 17 percent of their income from gifts. It is no wonder that such institutions view with some trepidation suggestions for the revision in the federal tax laws. It is possible that such changes will eliminate the tax incentives to private individuals and business corporations for making contributions to charitable organizations.

Indirect support for public and private institutions comes in the form of their designation as "charitable" organizations. This designation exempts them from state and local property taxes. It is extremely difficult to estimate the value of this hidden subsidy since, for the most part, institutions do not assess the value of their land or physical plant. As in the case of the various tax incentives for private contributions, this tax-exempt status may be threatened by overhaul of state or local tax policies. Colleges and universities also operate certain enterprises from which they derive tax-free income. The most recent test of this form of tax exemption occurred when the Internal Revenue Service challenged the tax-exempt status of revenues derived from charges at athletic contests. Although this challenge has recently been dropped, it again suggests the vulnerability and uncertainties surrounding the tax-exempt status of public and private institutions of higher education.

Endowment Income — Traditionally, colleges and universities have practiced the conservative policy of "protecting the principle." The Ford Foundation (1969) recommended that institutions implement a "total return" concept for the management of their endowment

funds. Further, they recommended that institutions use 5 percent of the moving average of the market value of their portfolio in current operating budgets. Subsequently, a number of institutions have found this 5 percent benchmark to be slightly high and have recommended that 3.5 or 4 percent may be more appropriate. Regardless of the benchmark established, most institutions examine both the earnings or rate of return on their investment and the capital appreciation in those investments. In 1976-77, the total return for a selected set of institutions was 5.2 percent, a return that indicates that they "did not out perform one-year savings certificates at the local bank" (Magarrell 1978, p. 9).

In the early 1970s, most institutions made substantial investments in the equity market (Cheit 1971). The stock market decline of the early 1970s caused a number of institutions to shift their investments from common stocks to bonds. And, as Magarrell indicates, "Looking back over the past year, college and university officials may well regret that the shift to bonds was not continued and accelerated" (1978, p. 9). However, the Common Fund recorded a 9.2 percent total return during the same period, a rate of return attributed to increased investment in growth stocks (Magarrell 1978). Given these substantial differences in total return, it is clear that even experts are uncertain as to the appropriate investment strategy in this inflationary era.

Perhaps one of the most overlooked issues in the management of an institution's endowment is the ability of the institution to maintain the purchasing power of its endowment. For instance, if an institution were to employ 5 percent of its total return in current operating expenditures, it would need a total rate of return of almost 12 percent to retain its endowment's purchasing power. The difference of 7 percent constitutes that share of the total return that should be reinvested so as to maintain this purchasing power (assuming that the rate of inflation is approximately 7 percent per year). Without such reinvestment, the real value of the institution's endowment would deteriorate and seriously hamper its ability to continue to support the institution's current operating budget in the long run.

Other Income — The category of "other income" includes the sales and services of educational activities (e.g., sales of scientific and literary publications, the products of dairy creameries, food technology divisions, and poultry farms), the recovery of indirect costs, and incidental fees and rentals. This type of revenue tends to be relatively more important for public and private universities than

for other types of institutions primarily because of their research orientation. As was indicated above, changes in federal regulations concerning the recovery of indirect costs may have a substantial (and negative) impact on this source of revenue.

Table 2. Actual and Projected Operating[1] Revenues of a Public and Private University for 1974-75 and 1984-85[2] (In Thousands of Dollars)

	Public University			Private University		
Source[3]	Base Year (1974-75)	Average Annual Growth Rate	Projected 1984-85 Values	Base Year (1974-75)	Average Annual Growth Rate	Projected 1984-85 Values
Tuition & Fees	15,118	7.8	32,039	19,913	9.2	48,013
Federal Govt.	23,364	6.4	43,447	19,656	8.0	42,436
State & Local Government	47,150	5.2	78,278	2,441	4.0	3,613
Gifts	2,749	7.4	5,613	5,845	6.4	10,869
Endowment Income	740	6.4	1,376	3,918	6.4	7,286
Other	16,587	7.5	34,169	12,461	7.5	25,669
Total Income	105,708	6.3	194,922	64,234	7.9	137,886

[1]Excludes revenues for capital expenditures, student aid, and auxiliary enterprises.

[2]Assumptions:

(a) the two institutions had balanced budgets in 1974-75. Thus, total revenues were set equal to total expenditures (see Table 4).

(b) the level of enrollment remains constant over the 1974-75—1984-85 period.

[3]The distribution of total revenues by source was based on the percentage of distribution shown in Table 1.

Projecting Revenues — Table 2 presents the revenue projections for a public and private university. This table was developed by multiplying the percentage of revenues derived from various sources (Table 1) times the total operating revenues for these two institutions. The fundamental assumption underlying this table is that the institution has a balanced budget in the base year (see p. 26).

The second fundamental assumption underlying these revenue projections is that the level of enrollment will remain constant over this ten-year period. This assumption of constant enrollment levels is not as unrealistic as it might seem at first blush. Because our pro-

jection period extends to the 1984-85 fiscal year, it covers only the beginning of the "big dip." Further, given the relative prestige of these two universities, they are not as likely to be susceptible to probable demographic changes. *If enrollments were to decline, then these revenue estimates would have to be revised downwards.*

The supplementary assumptions are imbedded in the average annual growth rates for the various sources of revenues. It is at this point that revenue forecasts become extremely hazardous. For the public university, these growth rates were derived from recent experience (1972-73 through 1976-77) of one such institution. The growth rates for the private university were, for the most part, borrowed from Hopkins and Massy (1977). It should be reiterated that these growth rates may diverge significantly from the actual growth that will occur.

When the various sources of revenues are combined, it is predicted that total operating revenues will be $194,922,000 and $137,886,000 at the public and private university, respectively. This represents an average annual increase of 6.3 percent for the public institution and 7.9 percent for the private university. In and of themselves, growth rates are meaningless; only when they are compared with projected increases in institutional expenditures do they take on importance.

Trends in Institutional Expenditures

Projecting institutional revenues is characterized by a high level of uncertainty, while trends in expenditures are more predictable; the costs of colleges and universities will continue to increase. As will be seen below, it is possible to make short-run reductions in expenditures. However, continuation of tactics that are designed to make these short-run adjustments may have debilitating effects on the college's academic quality and vitality.

Continued Cost Pressures — Table 3 displays the recent history of educational and general expenditures per student. During the 1960s, these per student expenditures grew at an average annual rate of 5.0 percent in public institutions and 7.7 percent in private institutions. This latter growth rate is slightly above the 7.5 percent rate first identified by William Bowen as the historical rate of increase at selected private universities, a growth rate that has subsequently been labeled, "Bowen's Law" (Bowen 1969; Cheit 1973). "Bowen's Law" has been found to be roughly applicable at other types of institutions. For instance, Jenny and Wynn (1972) found that the average annual growth rate for private liberal arts colleges was 7.2 percent for the same period. Further, they argued that the past two years of the

Table 3. Educational and General Expenditures[1] Per Weighted[2] FTE Student (In Thousands of Dollars)

Control	Expenditures Per FTE Student 1959-1960[3]	1969-1970[3]	1972-1973[4]	Average Annual Growth Rate 1959-60 to 1969-70[3]	1969-70 to 1972-73[5]
Public Institutions	1018.0	1659.0	1880.0	5.0	4.4
2-Year			1691.0		
4-Year			2222.0		
University			2034.0		
Private Institutions	990.0	2070.0	2460.0	7.7	5.9
2-Year			2156.0		
4-Year			2448.0		
University			3421.0		
Consumer Price Index (1967 = 160)	88.0	112.9	127.3	2.5	4.1

[1]Educational and General Expenditures include all expenditures for Education and General purposes. Exclude capital expenditures and expenditures for student aid and auxiliary enterprises.

[2]In computing FTE enrollment, it is assumed that it costs three times as much to teach one FTE graduate student as it does to instruct one FTE undergraduate. See Carnegie Commission on Higher Education, *The More Effective Use of Resources*, New York: McGraw-Hill, 1972, p. 36.

[3]Source: Carnegie Commission on Higher Education, *The More Effective Use of Resources*, New York: McGraw-Hill, 1972.

[4]Source: Adapted from the Higher Education General Information Survey (HEGIS), 1972-73, by the Higher Education Research Institute, Los Angeles, California.

[5]These average annual growth rates were computed from data derived from the two sources in footnotes 2 and 3.

decade had witnessed a substantial acceleration in these expenditures, an acceleration that had increased the growth rate to this level.

Explanation of the growth in institutional expenditures have focused on three factors: inflation, increased responsibilities, and the nature of educational technology (Bowen 1969; Jenny and Wynn 1970; Balderston 1974). Despite the general consensus as to the causes of increasing institutional expenditures, there is still some debate as to the relative contribution of these factors to the upward trend in institutional expenditures. In addition, there are some differences in the impact of these factors on universities as opposed to colleges. Each of these factors is discussed below.

The cost of goods and services consumed by institutions of higher

education accounts for part of the increase in institutional expenditures. These goods and services include laboratory materials, supplies and equipment, and academic and nonacademic salaries. Due to the type of resources consumed by educational institutions, the costs of these goods and services increase at a faster rate than is indicated by the consumer price index. However, it is extremely difficult to construct an index specifically for the postsecondary education enterprise, primarily because of the enormous variation in institutional quality (Halstead 1975). Nonetheless, increases in the price of the resources consumed by educational organizations will continue to spur increases in institutional expenditures.

The second factor contributing to the acceleration in institutional expenditures are responsibilities assumed by universities and colleges. In the case of universities, there are two tendencies that have resulted in increased costs. First, there are pressures for the expanded coverage of new, specialized fields. Typically associated with these fields is the use of sophisticated equipment and new procedures that add to pressures for increased expenditures (Bowen 1969). Second, there is increasing emphasis on graduate studies. With the increasing proportion of graduate students, comes lower faculty workloads, smaller classes, and a situation in which more faculty teach graduate-level courses (Balderston 1974, pp. 159-177).

Both universities and colleges face increasing costs in the nonacademic components of their institutions. Increased staffing for supportive services adds to institutional costs. The building campaigns of the "golden years" have left a number of institutions with increased building maintenance costs and a large debt service. Finally, increasing federal regulations result in increases in administrative paperwork expenses. This trend has already been noted in the case of revised regulations concerning the recovery of indirect costs. One private university president has likened the situation to one in which the federal government, having bought the buttons for the overcoat, now wants to tell the tailor how to make the entire coat. Regardless of the nature of the increased responsibilities assumed by colleges and universities, these additional burdens have resulted in substantial changes in the quantity and type of resources consumed.

Third, unlike many industries, colleges and universities are unable to seek significant relief from inflationary pressures through improvements in its technology. Technology in postsecondary education has two unique features; it is labor intensive and yields little, if any, demonstrable gains in productivity (O'Neill 1971). Unable to offset higher labor costs by increases in productivity, the costs per student

must increase relative to the rest of the economy. In the situation in which faculty salaries are keeping pace with the consumer price index, it would be expected that cost per student would increase at the same rate as increases in faculty salaries (assuming that no other factors were operating). Given the interaction of these two features, it is not surprising to find that salary escalation is one of the major causes of increases in operating expenditures per student.

Closely related to institutional salaries is the anticipated increase in Social Security contributions due to changes in both the contribution rate and the taxable wage base (See Minter and Fadil (1978) for a comprehensive treatment of the *net* cost to independent colleges and universities). Table 4 estimates the impact of these changes for one large public university's instructional salaries. As is clear from this table, this institution can anticipate an increase of $1.5 million (50 percent) in its contributions by 1981 and $4.4 million (150 percent) by 1988-89. Such increases will substantially alter the institution's basic cost structure.

A second aspect of educational technology has been the search for economies of scale. While increasing the total number of students also increases total institutional costs, there is often an economic ad-

Table 4. Estimated Social Security Contributions

Rank	Number[1] of Faculty	Average[2] Faculty Salary	Social Security Contributions[3] 1977-1978	1980-1981	1984-1985	1988-1989
Professor	799	25.6	$ 855,609	$1,578,064	$2,151,786	$2,759,306
Associate Professor	787	19.2	842,758	1,282,219	1,653,408	2,036,992
Assistant Professor	1000	15.0	998,250	1,270,150	1,642,650	2,023,450
Instructor	356	12.4	295,070	374,049	481,881	595,623
Totals	2942		$2,991,687	$4,504,482	$5,929,725	$7,415,371

[1]Number of standing academic appointments by rank as of fall 1976. Estimates assume that both the number and disribution of faculty by rank will remain constant. This assumption is not realistic and resulting estimates are conservative.

[2]Source: The AAUP, *The Annual Report of the Economic Status of the Profession, 1975-76.* Data reported in thousands of dollars. Estimates assume that the salary base increases at a rate of 5 percent per year.

[3]After 1981, the taxable wage base will rise based on inflation. Estimates assume that the rate of inflation will be 6.5 percent per year from the 1981 wage base of $29,700.

vantage in that students could be added to existing programs at a lower than average cost. However, in a period of declining numbers of students, institutions may find themselves moving back up the long-run average cost curve. This phenomenon is probably one of the least understood possibilities associated with the "big dip." Many colleges and universities treat the average cost per student as if it were independent of the number of students. However, if the average long-run cost curve of an institution is a typical downward-sloping average cost curve, institutional and general expenditures per student will increase at a faster rate than has historically been the case due to "diseconomies" of scale. Public institutions that are on a formula basis are particularly suspectible to this possibility. Because most of these formula are linear in form, state appropriations will be lower than the average cost per student (Boutwell 1973). To further exacerbate this situation, changes in state funding formulas (if any) are likely to lag behind changes in the average costs per student.

The historical rates of expenditure growth were substantially altered in the early 1970s. Table 3 indicates that the rate of growth in educational and general expenditures per student had been reduced to 4.4 percent and 5.9 percent in public and private institutions, respectively. When these rates of increase are compared with the increases in the consumer price index, one finds that the operating expenditures per student grew at an average rate of 0.3 and 1.8 percent greater than the increase in the consumer price index. These rates of increase compare reasonably well with the 0.5 percent increase in the average annual educational expenditure per student over the average annual increase in general prices found by Cheit (1973). Such evidence indicates that almost all institutions were operating at substantially reduced rates of expenditure growth.

A number of actions were taken to accomplish this level of reduction. Institutions deferred the maintenance of their physical plants, froze the salaries of faculty and staff, left vacancies unfilled, and increased the efficiency of their operations in food handling, purchasing, and class scheduling (Cheit 1973; Jellema 1973). Such actions, however, represent temporary solutions to the "cost-income squeeze." Continuation of such practices could have adverse consequences for the quality of institutional faculty and facilities (Wynn 1974).

Projected Expenditures — Table 5 presents the projected expenditures for the public and private university. Total educational and general expenditures for the base year were obtained by multiplying the average operating expenditures per student by the total enrollment. It should be recalled that it is assumed that these two in-

stitutions have balanced operating budgets in the base year. Consequently, the total educational and general revenues in Table 2 were set equal to the total operating expenditures calculated in Table 5.

Table 5. Projected Operating Expenditures[1] for a Public and Private University (In Thousands of Dollars)

Control	Base Year Values (1974-1975)	Average Annual Growth Rate	10-Year Multiplication Factor	Projected 1984-1985 Values
Public University				
1) Educational and General Expenditures Per FTE Student	2817	6.5	1.88	5296
2) Enrollment	37525	.0	1.0	37525
3) Total Educational	105708	6.5	1.88	198732
Private University				
1) Educational and General Expenditures Per FTE Student	3836	8.5	2.26	8669
2) Enrollment[2]	16745	.0	1.0	16745
3) Total Educational	64234	8.5	2.26	145162

[1]Excludes expenditures for capital programs, student aid and auxiliary enterprises.

[2]Assumes that the level of enrollment for these two "typical" institutions remains constant over the period 1974-75—1984-85. (See p. 22)

[3]The 10-year multiplication factor was calculated as follows: multiplication factor = $(1 + \text{average annual growth rate})^n$ where n is the number of years over which the projection is carried. For instance, if total expenditures grow at 6.5 percent per year, the 10-year multiplication factor is $(1 + .065)^{10} = 1.88$. This multiplication factor can be multiplied by the base-year values to obtain the projected values.

As in the revenues projections, it is assumed that the level of enrollment will remain constant during this ten-year projection period. *However, if the level of enrollment were to decline (Table 5, line 2), expenditure projections (Table 5, line 3) would probably have to be revised upwards.* This revision would be required due to increases in the cost per student as the institution "backs-up" the average cost curve. Such a revision assumes that declines in enrollment would be more than offset by increases in the cost per student. In the case where the enrollment does offset the increase in the cost per student, there would be an absolute decline in the level of expenditures, although less proportional to the decline in the enrollment.

Because enrollment levels are held constant, increases in total educational and general expenditures are solely a function of this variable cost per student. We assume that expenditures will increase at an

average annual rate of 6.5 percent for the public university and 8.5 percent for the private university. The sources of these growth rate projections are the same as in the revenue projections—recent experience on the part of a public university and estimates for the increases in total operating expenditures made by Hopkins and Massy (1977). It is readily apparent that the rate of growth for the public university is below "Bowen's Law," while that of the private university exceeds it. However, neither institution will be able to attain financial equilibrium, since institutional expenditure rates in both cases exceed the rate of growth in revenues.

Table 6. Combined Operating Revenues and Expenditure Projections at a Public and Private University in 1984-85 (In Thousands of Dollars)

	Public University	Private University
Projected Educational and General Revenues (Table 2)	194,922	137,886
Projected Educational and General Expenditures (Table 4)	198,732	145,162
Difference Between Revenues and Expenditures	(3,810)	(7,276)

Long-Run Financial Equilibrium

Table 6 combines the projected revenues and expenditures for these two institutions. Based on the assumptions made above, the public university would experience a budget deficit of $3,810,000 in 1984-85, and the private university would experience a budget deficit of $7,276,000. Further, because the budget was constrained to be balanced in the base year, these budget deficits are solely due to imbalance in the total revenues and expenditure growth rates. Over this ten-year period, the budget gap will increase at a rate of 0.2 percent per year for the public and 0.6 per year for the private university. That these "small" imbalances in revenues and expenditure growth rates could result in these deficits emphasizes the pernicious nature of slight imbalances in income and expenditure growth rates.

Hopkins and Massy propose two necessary conditions for achieving a long-run financial equilibrium. These are:

> First, the budget must be balanced, with total expenditures equal to the sum of operating income and income (payout) from the endowment. . . . Second, the one-year growth in the budget must also be in balance; that is, incremental expenditures must equal incremental operating income plus incremental endowment income. . . . (1977, p. 57)

While this formulation of the two necessary conditions are specific to an institution whose operating budget is particularly reliant on its portfolio performance, it nonetheless captures the essence of the relationship between the institution's financial and cost structures.

Since the early 1970s, colleges and universities have learned to live with fragile balances betwen their financial and cost structures. Even changes in indirect cost recovery rates and social security contributions, although extremely difficult, could be accommodated through existing mechanisms. It is the ability of college administrators to maintain these balances in the face of sharp and prolonged enrollment declines that constitutes the unique challenge of the 1980s. Such declines are likely to drastically affect the revenues that will be derived from student tuition and fees and may result in increasing costs per student above recent historical trends. Taken together, these forces threaten to smash institutional attempts to attain a fragile, financial equilibrium.

It should be clear from this discussion that if institutions are to have any flexibility to respond to changing conditions in the eighties, significant strategies must be developed. Without specific action, most institutions will find themselves victims of these demographic, inflationary, and governmental policy trends.

Reductions, Reallocations, and Retrenchments

The projected gap confronting most institutions in the eighties can be handled in a number of ways, including expanded revenues and cost control. In the sections that follow, we concentrate on expenditure control, since we believe revenues-oriented options are covered adequately elsewhere and that demographic and financial considerations *require* reductions in the budget bases of some internal programs. (Revenue-oriented options include increased tuition, more aggressive or lenient admissions and recruiting, increased solicitation of private gifts, and the like).

The general furor over reductions, reallocations, and retrenchments now upon us is complicated by the fact that there is little agreement over appropriate terminology. For example, the definition of financial exigency ranges all the way from a deficit in current operating income as related to current operating expenditures, to a situation where campuses are closed and/or tenured faculty released (Moore 1975, p. 100). In our view, the term exigency should be reserved for situations in which the shortage of resources is coupled with lack of reasonable time to deal with the problem and a relative lack of feasible alternatives. A short-term deficit that threatens institutional or program survival might well be termed an exigent situation, but a long-term projected gap between revenues and expenditures, while cause for concern, is hardly an urgent, comparable situation.

In short, new patterns of institutional behavior are operative in American colleges and universities as they cope with the forces we have outlined. They involve adjusting aspirations, resources, and programs downward, and this is not a scenario to which administrators are accustomed. Very few of these situations should be classified as exigent.

Fundamental issues remain as to how the necessary conditions of a long-run financial equilibrium are to be achieved. This paper concentrates on strategies for holding down the rate of growth in institutional expenditures. Our intention is to lay out the basic alternatives available to an institution and to suggest some of the factors that must be considered when contemplating these alternatives.

In reducing institutional costs, an institution must consider both reductions in the annual budget base and reductions in the rate of growth of expenditures. Across-the-board decrements implicitly as-

sume that the existing budget base is appropriate. After several years of such reductions, however, it becomes apparent that this strategy will result in the gradual deterioration of academic quality and vitality. On the other hand, reductions in the rate of growth in institutional expenditures not only yield substantial cost savings in the current budget period, but have a cumulative effect as well, since most categories of institutional expenditures grow at compound rates. For instance, salary increases in the current budget serve as the salary base for succeeding years.

The reader will immediately see that the alternatives discussed here may be combined into an institutional strategy or philosophy of how best to achieve expenditure control. We will argue that institutions need to develop strategies that best fit their own purposes, missions and goals, and that no one strategy will fit all situations.

After a brief discussion of reduction in growth rates, the paper sets forth a number of methods for altering the budget base. Internal reallocation practices are then reviewed, including program review. The paper also discusses data and case material on staff reductions, dismissals, and program discontinuance. Finally, since financial exigency has received so much attention in the literature, the paper analyzes that concept.

Reductions in Growth Rates

Table 7 displays the total budgets for an anonymous public and a private university, broken down into various object categories. At both of these institutions, approximately 72 percent of the total budget is allocated to salaries and staff benefits. (Social security contributions constitute one aspect of these staff benefits.) This percentage reiterates the conclusion that colleges and universities are labor intensive organizations, and that almost any policy concerning expenditure reductions must include fundamental personnel decisions.

Consider the case of the private university. Administrators at this institution anticipate that salaries will grow at an average annual rate of 7.3 percent. At this rate, the institutional cost of salary increases in 1975-76 would be $2,910,000. If salaries continued to increase at 7.3 percent per year, the cost of salary increases in 1984-85 would be $6,595,000, and the cumulative cost over this ten-year period would be $40,786,000. In other words, total salary expenditures would *double* in ten years at this rate of growth.

Colleges have at least two options to reduce this expense; freeze faculty salaries for (at least) one year or slow the rate of growth in

Table 7. Operating Budget Expenditures[1] (In thousands of dollars)

Control	Base Year Values (1974-1975)	Expenditure Growth Rate	10-Year Multiplication Factor	Projected 1984-1985 Values
Public University				
Faculty Salaries	31750	5.1	1.65	52387
Teaching Assistants	4289	6.3	1.84	7891
Other Personnel	24368	7.6	2.08	50685
Total Salaries	60407	6.3	1.84	110963
Staff Benefits	16462	9.0	2.37	39014
Total Salaries and Staff Benefits	76869	6.9	1.95	149977
All Other	28849	5.4	1.68	48755
Total	105718	6.5	1.88	198732
Private University				
Faculty Salaries	15969	6.9	1.95	31139
Teaching Assistants	1166	5.8	1.76	2052
Other Personnel	22734	7.7	2.10	47741
Total Salaries	39869	7.3	2.03	80932
Staff Benefits	6778	13.0	3.39	22977
Total Salaries and Staff Benefits	46647	8.3	2.22	103909
All Other	17587	8.9	2.35	41253
Total	64234	8.5	2.26	145162

[1]Excludes expenditures for organized research, student aid, and auxiliary enterprises.

salary increases. In the case of the hypothetical private university, a one-year salary freeze would result in an immediate savings of $2,910,000 for 1975-76 and an increasing amount thereafter. This option, however, has a serious impact on employee morale and is probably justified in extreme situations only. More realistically, the university might reduce the rate growth in salaries by 1 percent (from 7.3 to 6.3 percent). This would result in a total savings in 1984-85 of $7,487,000 — slightly more than the projected deficit of $7,276,000 (see Table 6).

As should be obvious from the preceding example, reductions in salary growth rates present opportunities for significant economies. They also involve substantial tradeoffs. We have already suggested

that manipulating employee salaries can have a detrimental impact on morale. Equally serious are the long-run implications for the quality and vitality of the faculty. Slowing the rate of increase in faculty salaries could seriously jeopardize the ability of the institution to attract and retain capable professionals. Bowen (1978) argues that over the long run, the ability of colleges to compete in the non-academic labor market would be substantially weakened under such policies; he calls for policies that will assist institutions in maintaining the competitive position of academic salaries.

Reductions in the Budget Base

There are a number of methods for altering the institutional budget base. In this section, we will review two basic tactics: changes in staff (faculty) composition and in student-faculty ratios. We will defer to subsequent sections a discussion of the tactics and issues involved in staff reductions, dismissal, retrenchment, and program discontinuance.

Changes in Staff Composition — It is often suggested that institutions hire more temporary and part-time faculty (Carnegie 1975). This would increase the institution's capacity to respond to shifting student demand. It may offer some cost savings, since part-time faculty receive lower stipends and often receive few, if any, fringe benefits (McCabe and Brezner 1978, p. 60).

However, there are some liabilities in the use of part-time faculty (Ernst and McFarlane 1978, pp. 92-97). Part-timers may not be as familiar with the college's missions, philosophies, and academic policies. It is difficult to meld part-time and full-time faculty into a cohesive college faculty, especially if multiple locations are involved. It also is quite difficult to coordinate course content, develop uniform standards of student performance, and establish continuity of instruction when part-time faculty are used excessively.

Other attempts to change the composition of the faculty generally concentrate on changes in promotion and tenure policies. Hopkins (1974) models a number of alternatives, including changes in promotion rates for nontenured faculty, extensions in nontenured faculty service times, and implementation of early retirement programs. Several of his conclusions are important. First, "early retirement will lead to increases in faculty turnover and the fraction serving in nontenure. However, the long-run impact is rather modest" (Hopkins 1974, p. 410). Second, lengthening the time of nontenure service *reduces* the rate of faculty turnover and results in a far greater proportion of nontenured faculty. In both cases, increasing the pro-

portion of nontenured faculty results in reductions in the institution's budget base.

But these cost savings may severely damage the morale of both junior and senior faculty. Junior faculty are concerned that alterations in promotion and tenure procedures will adversely affect their chances of achieving a lasting relationship with the college. The senior faculty member nearing retirement age would be justifiably depressed by institutional efforts to get rid of him or her. After a long career, it is difficult to think of yourself as "dead wood."

Changes in Student-Faculty Ratios — Colleges are able to make a number of adjustments in their budget base through changes in institutional policies. By increasing the student-faculty ratio, for instance, an institution is able to achieve economies in a given period (usually more than one year), and alter the foundation on which subsequent cost increases will be based. However, additional economies would require further increases in the ratio.

There are essentially only three ways to increase the student-faculty ratio: either increase the number of students and hold the number of faculty constant, reduce the number of faculty and hold the number of students constant, or develop some combination of the two. (The various methods of increasing the student-faculty ratio have substantially different income and expenditure implications.) In an era of declining enrollments, many institutions will find it necessary to reduce faculty just to maintain established student-faculty ratio policies. As in the case of changes in promotion and tenure policies, such reductions will have definite implications for faculty morale, especially on the part of junior faculty.

It is also widely believed that increasing the student-faculty ratio negatively affects the quality of student-teacher relationships. Unfortunately, there is little research-based data on what constitutes the optimal student-faculty ratio for producing desired student outcomes (Astin and Panos 1971). Consequently, difficult judgmental decisions are required concerning what impact increasing the student-faculty ratio would have on opportunities for student-faculty interactions and the quality of student advising.

Increases in the student-faculty ratio are only the tip of the iceberg. For any given ratio, *average* class size and relative faculty workload can vary tremendously (Sheehan and Gulko 1976). Bowen and Douglas (1971) make substantial use of this fact, while considering various alternatives to the lecture-discussion mode of college instruction. For example, the "Ruml Plan" alters the average class size by manipulating the size distribution of classes. Because relative

faculty workload and average class size can vary over such a wide range, colleges have a wide range of discretion in designing instruction within fiscal constraints.

Meeth (1975) point out, however, that there are limits on this freedom. He argues that most liberal arts colleges have small classes and heavy teaching loads. This situation arises due to the college's belief that it needs to offer a broad range of programs to satisfy student interests. To some, this range of options represents course proliferation. The faculty perspective on this phenomenon is substantially different. They feel that the only way they are able to attract students is to offer a broad range of courses. Reducing the range of programmatic options makes the college less attractive, thus drawing fewer students. In turn, more programmatic reductions are required, among others. Faculty see no way out of this vicious circle.

Internal Reallocations

One of the principal ways institutions appear to be coping with the lack of flexibility resulting from the revenue-expenditure gap is by reallocating resources internally. The Carnegie Council on Policy Studies (1975, p. 87) staff surveyed ten institutions that had no-grow status and asked what annual portion of the operating budget *should* consist of flexible funds so as to achieve program objectives. The answers ranged from 1 to 3 percent, but none of the ten institutions actually had this necessary measure of flexibility. The Council pointed out that reallocation is the main source of flexibility when income growth ends.

Planning documents at the Pennsylvania State University reflect this concern about internal reallocation. The institution reports that one means of coping with financial stringency has been through reductions in the expenditure base as a result of internal budget reallocations. From 1971-72 through 1978-79, $18.7 million was cut from the expenditure base and reallocated internally within the institution (The Pennsylvania State University 1978).

A five-year planning and budget process was begun in 1977 to guide budgetary decisions at Penn State. These plans are based on income and expense projections for the period. Each college and administrative unit on the campus plans on the basis of budget targets that are assigned by central administration. While the targets vary from unit to unit over a five-year period, most academic units have been given target reductions of from 7 to 9 percent of their 1977-78 budget base.

Most information on reallocations within institutions is on a case-by-case basis. Few institutions seem willing to share their internal budgeting practices with the general public. One exception is the analysis of the University of Michigan by Harold T. Shapiro, Vice President for Academic Affairs (1978).

In his article, "Resource Planning and Flexibility," Shapiro explores some of the meanings and uses of fiscal flexibility and some of the relationships between resource planning and resource flexibility at the University of Michigan. He reports that since 1969-70, there have been several reductions in the base operating budget, some imposed by the state in the form of shortfalls in expected state appropriations and others self-imposed to meet perceived priority objectives. These reductions varied from one-third of 1 percent to 3 percent of the total annual base operating budget. For the most part, the self-imposed contractions of the budget resulted in what he characterizes as temporary and ad hoc measures. While in the decade of the sixties there had been considerable discretionary flexibility built into the budget, this flexibility had diminished to practically zero in the seventies.

In regard to flexibility in reallocations, Shapiro argues that, "financial flexibility is no more than the conventional and prudent practice of maintaining sufficient financial liquidity so that if revenues fall or expenditures increase unexpectedly, monies can be found to fill the gap. That gives the organization time to adjust; it avoids crisis management and sudden disruption in operations which might cause permanent and irreparable damage, since for most institutions real growth as a source of flexibility will no longer be the case (p. 21). The plan with which the University of Michigan is experimenting to regain flexibility deserves some elaboration.

First, all units in the university are on notice that their base budgets will be reduced by 1 percent each year to provide a pool of monies known as the Priority Fund. The Priority Fund is being used, in part, to adjust the present distribution of resources to achieve better internal balance and greater long-term viability, as well as to respond to new opportunities. All the units know that the Priority Fund represents a *continual reallocation process* and that they must plan ahead to free 1 percent of their resources annually.

An important ingredient in this Priority Fund is that much of it will be deployed in the form of matching monies to induce further reallocations. If a college is particularly short of up-to-date equipment, for example, and asks the Priority Fund for an equipment allocation, the request is more likely to be honored if the college also

stipulates that it will increase its own internal dollar allocations to scientific equipment purchases. It is possible that future use of the Fund will be to finance new programs for other essential but as yet unanticipated needs. Shapiro argues that the beauty of the Fund is that it is generated internally, so that is can be counted on and plans can be made in advance for its use.

A second major part of the internal reallocation process at Michigan is alteration of the budget cycle, so that budgets will have to be planning tools, rather than simple after-the-fact reflections of current state appropriations. The traditional practice of year-to-year adjustments in staffing and enrollment levels without direct and careful consideration of respective costs and revenues is no longer permitted. The annual planning and budgeting sessions with each college are held one year before the fiscal year begins, so that the dean and the college have time to adjust faculty numbers and student admissions to conform to planned changes in the operating budget.

A final aspect of the Michigan approach is the process of developing planning agreements, called Memoranda of Understanding, with the various schools and colleges. It is projected that the agreement will include items such as "targeted enrollment levels, staffing tables, major changes in programs, affirmative action goals, and intentions with respect to any major change in equipment, space, or other matter critical to the future of the unit" (p. 22). The memoranda can be altered by mutual consent after discussion between the academic vice president and the college.

While the University of Michigan's plans may be more developed and centralized than others we are aware of, there is substantial evidence that many institutions are involved in extensive internal reallocations. For example, since 1973 the University of Pennsylvania has been operating under a decentralized system termed responsibility center management, in which each of its five schools and colleges carries responsibility for balancing expenses with income (Zemsky et al. 1978).

The Carnegie Council reports that "institutions are beginning to try to make this reallocation process a way of life. Between 1968 and 1974, only 6 percent of all institutional administrators in the Berkeley Center survey made 'extensive' use of course elimination or consolidation to free resources for reallocation. For the next six-year period three times as many report they expect to make 'extensive' use of that practice for reallocation" (1975, p. 91). These intentions appear to be stronger at the graduate than undergraduate levels.

In *More than Survival*, the Carnegie Council has recommended that

boards of trustees and regents develop guidelines for reallocation to facilitate adapting existing resources to new needs (p. 91). These guidelines should be sensitive to the procedural requirements of the campus and provide objectives bases for concepts like financial exigency and program need. The Council suggests that program review should shift to departments the burden of defending the *status quo*. The Council also recommends withdrawing funds from existing campus programs for a self-renewal fund of from 1 to 3 percent annually to be directed to newer or expanded programs.

Program Review as Resource Reallocation

There are other manifestations of the intent of administrators to resort to greater internal reallocations. The Carnegie Council survey reported that institutional administrators will be relying much more heavily on program and course review in the future than they have in the past. As a consequence, they intend making program and course changes more by substitution and less by addition than in the past.

The phenomena of program review has received increasing attention in the literature, but we are not aware of any surveys that have indicated just how many institutions have instituted *new* practices of program review. In their first study of multi-campus systems in 1971, Lee and Bowen noted that reviews of new and existing academic programs were conducted in a context of expansion. The emphasis was placed on discrete evaluations of proposed and new programs on a campus-by-campus basis and systemwide considerations were underplayed. The major point they reported is that reviews of existing programs were rare at the multicampus or systemwide level.

In their more recent study in 1975, they found that systemwide review of new academic programs has become more intensive and is based on academic quality and campus mission in six of the nine systems and on fiscal criteria in eight of the nine systems (reported in Barak and Berdahl 1978). Perhaps even more important, seven of the nine multicampus systems that Lee and Bowen studied had instituted procedures for periodic review of existing graduate and professional programs.

Barak and Berdahl report that "in 1960 there were 16 state-level governing boards, and in 1975 there were 19 governing boards, all of which had potential program review authority. In 1960 there were 8 state-level coordinating agencies, 3 with program approval authority and 4 with authority to recommend. In 1978 there were 28 co-

Table 8. Criteria for Evaluation of Existing and Proposed Programs

Evaluative Criteria	Rating Categories		Program Clusters
Quality			
Quality of Faculty	Exceptional, Strong, Adequate, Weak		The programs to be continued at the current level of activity regarding resource allocation, enrollments, and number of faculty.
Quality of Student	High, Medium, Low		
Quality of Library Holdings	Excellent, Adequate, Insufficient		
Quality of Facilities & Equipment	Excellent, Adequate, Insufficient		
Need		**Evaluation of Individual Programs**	Existing programs to be continued but at a reduced level of activity and resources.
Centrality to Mission	Yes, No		
Present Student Demand	High, Moderate, Low		Programs now in existence to be singled out for further development as areas of excellence.
Projected Student Demand	Growing, Stable, Declining		
Demand for Graduates	High, Medium, Low		Programs now in existence that are to be phased out.
Locational Advantage	Yes, No		
Comparative Advantage	Yes, No		New programs to be developed.
Cost			
Cost/Revenue Relationship	Good, Adequate, Poor		
Other Costs and Benefits	(Listing)		

Source: Robert C. Shirley and J. Fredericks Volkwein. "Establish Academic Program Priorities." *Journal of Higher Education* 49 (September/October 1978):478.

ordinating agencies of which 20 had program review and 8 had authority to recommend approval" (1978, p. 15).

Volkwein (1977) reports that the individual graduate program reviews conducted at SUNY/Albany were a significant factor in deciding where cuts were to be made, when the 1975-76 budget cuts became apparent. At Albany, the process of reviewing each graduate program on a five-year cycle began in 1970, and 98 separate teams of consultants had visited the campus by 1976. The State Education Department began its assessment of all History and Chemistry Ph.D. programs across the state in 1974. The Ph.D. in Chemistry was given only provisional acceptance, and the History Ph.D. was ordered terminated by Commissioner Nyquist.

It has become clear that a number of institutions are beginning to look more seriously at academic program review as a mechanism for making assessments about institutional vitality. For the most part, these are formative reviews rather than summative. That is, it is expected that the program reviews will lead to strengthened academic offerings rather than to program termination. This tradition of formative review is now in serious question, however, and a number of schemes have been developed for assessing or establishing program *priorities*. The clear implication for establishing priorities is that programs that do not occupy high priority are subject to discontinuance or termination.

We have examined a number of these schemes for program review and the establishment of academic priorities in preparation for this paper (e.g., Balderston 1974; Brown 1970; Cranton and Legge 1978). For the most part, the debate focuses on three basic questions: (1) What criteria are appropriate in establishing priorities? (2) What relative weight should be given to each criterion? and (3) What processes should be used in arriving at decisions?

Table 8 is a reproduction of Shirley and Volkwein's twelve criteria to be used in assessing program priorities. In the Appendix, we have reproduced Balderston's (1974) "Checklist for Academic Quality Assessment and Program Evaluation" for those who are interested in more detail.

The evaluative criteria are clustered simply under quality, need, and cost factors. Rating categories vary and can be applied to individual institutional situations (see also Lawless *et al.*, no date).

The processes of quality assessment and the establishment of program priorities will vary according to institutional governance patterns, history, and administrative culture. Mortimer and McConnell

outline a decisionmaking process consisting of six elements that we believe should characterize the process (1978, pp. 275-280).

(1) The process and criteria must themselves be the subject of *early consultation* before alternatives become rigidified.
(2) The procedures should be jointly *formulated* by both faculty and administrators.
(3) Where possible, there must be *adequate time* to conduct reviews.
(4) The *information must be freely available* to all persons concerned with the review. Those who would restrict the free flow of information should bear the responsibility for justifying that restriction.
(5) Once reviews have been conducted, there should be *adequate feedback* concerning the results.
(6) Any decisions reached should be *communicated* widely.

The major *new* element of these reviews is that they are likely to furnish substantial input in the decisions on staff reductions and dismissals, a subject to which we now turn.

Staff Reductions, Dismissals, and Retrenchment

Since from 70 to 80 percent of a college or university's expenditures may be tied up in personnel costs, staff reductions are a "normal" response to the conditions of declining enrollments and the budget gap. Indeed, there is substantial evidence that staff reduction is widely considered as appropriate behavior on the part of college and university administrators.

Sprenger and Schultz (1974) report on a study of staff reduction policies in 163 institutions and 14 different states. Their data show that 74 percent of the private four-year institutions, 66 percent of the public four-year institutions, and 41 percent of the two-year institutions had undergone or were currently in the process of staff reductions during 1971-72, 1972-73, and 1973-74. In these classes of institutions, which account for 91 of the 163 institutions in the sample, "the number of full-time staff who were affected by reduction increased substantially each year for the three-year period, increasing from a total of 178 in 1971-72 to 259 in 1972-73 and to 517 in 1973-74. That represents an increase over 291 percent in three years" (p. 21).

Fifty-two of the 91 institutions reported that an enrollment decrease was the primary reason for staff reductions. The rank order of the reasons given by the respondents was as follows:

(1) Decreased enrollment
(2) Increased operating costs

(3) Reduced state funds
(4) Decreased federal funds
(5) Decreased contributions
(6) Decreased foundation grants (primarily in private institutions).

Sprenger and Schultz also report the following *methods* of reducing staff prevailed.

(1) Not filling vacancies — 277
(2) Terminating nontenured faculty — 201
(3) Terminating part-time faculty — 125
(4) Terminating teaching assistants — 118
(5) Early retirement — 51
(6) Seniority of tenured faculty — 48
(7) Reassignment — 35
(8) Performance — 34

Fulkerson (n.d.) surveyed the presidents and chancellors of the 300-institutions who were members of the American State Colleges and Universities or the National Association of State Universities and Land-Grant Colleges to find out how institutions were reacting when faced with an exigency situation — which was defined as a decline in financial support and/or enrollments that requires the release of professional staff, tenured and nontenured. He reported that twelve institutions indicated they had released a total of 134.5 positions as a result of financial exigency.

In a survey of the membership of the Association of American Colleges, Gillis reports that seven of fifty-four respondents replied they had already found it necessary for reasons of financial exigency to terminate one or more tenured members of the faculty (1971, p. 367). Lozier (1977, p. 237) reviewed ninety-one collective bargaining contracts and reported that fifty-four of them (59 percent) contained some form of retrenchment provision. In addition to the key word retrenchment, relevant clauses in these collective bargaining contracts were identified by such descriptors as termination, reduction, layoff, and financial exigency. He further reports that the most frequently cited criteria was a seniority-related language.

> Thirty-seven of the agreements cite *length of service*, typically in one's campus, college, or discipline, as the primary determinant of the order of retrenchment. Many of the agreements also required that nontenured, noncontinuing, or probationary faculty must be terminated before tenured or continuing faculty are retrenched (twenty-seven contracts), and nineteen

> agreements require termination of part-time or temporary faculty prior to full-time or regular faculty. When two individuals have the same status (for example, tenured and full-time), several contracts add academic rank, and even time in rank and birth date, as the distinguishing qualifiers (p. 240).

It is difficult to unravel the rather serious conditions that prevailed at the City University of New York during 1975 and 1976, but the AAUP investigatory committee reported that although there were 1,000 terminations:

> the retrenchment was accomplished without terminating the appointment of any full-time teaching faculty with tenure as recognized by the statute and bylaws governing the University. The appointments of a number of counselors, administrative officers, laboratory technicians, and other non-teaching staff with tenure were terminated. Also terminated were the appointments of an unknown number of full-time lecturers with a hybrid sort of tenure that this association would characterize as an entitlement to unqualified tenure. Finally, the appointment of about ten professors who were informed that they would be granted tenure were terminated before the statutory date — September 1 — when their indefinite tenure would have commenced (AAUP April 1977, p. 80).

Faculty terminations in the State University of New York have received less attention than those in CUNY, but involved more full-time tenured faculty. According to the AAUPs investigatory committee, 103 faculty were terminated on the grounds of retrenchment from September 1974 through September 1976 (AAUP August 1977, p. 244). Sixty-two of these terminations involved tenured faculty, only thirty-four of whom were reemployed elsewhere within the system.

Staff reduction *is only one way* to accomplish significant expenditure reduction. The case of retrenchment in the Pennsylvania State College and University System illustrates what eventually became a combination of two expenditure control strategies — staff reductions and slowing down the growth rate of faculty salaries.

The Pennsylvania Case — A series of events that engulfed the Pennsylvania State Colleges and University system from January 1975 through Fall 1976 have been recounted in some detail elsewhere and we will only summarize them here (Johnson and Mortimer 1977, pp. 47-68). This fourteen campus system was organized for collective bargaining in 1971, and the bargaining unit consisted of some 4,000 faculty. The colleges are owned by the State of Pennsylvania and, although they have a separate system board of trustees, the essential details of their operation are governed by the Pennsylvania Department of Education.

In late 1974, the system submitted to the Department of Education a request for $167 million for its 1975-76 fiscal year. The Secretary of Education forwarded to the State budget office a request of approximately $165 million. The Governor forwarded to the legislature in early 1975 a request for only $150 million for the State colleges. Although $150 million represented a 9 percent increase over the appropriation for the 1974-75 fiscal year, it still appeared to the Department of Education that it would be necessary to consider retrenchment, because there would likely be a revenue gap of some $16 million, should $150 million be the actual figure passed by the legislature.

It is important to remember that in November 1973, the Department of Education signed an agreement with the faculty union. It provided for a moratorium on retrenchment through the end of the academic year 1974-75. In September 1974, partially in exchange for a rather modest faculty salary increase in the second faculty contract, the Department of Education agreed to extend this ban on retrenchment through 1975-76. The Department of Education and the separate colleges were therefore obligated to live with the legislature's appropriations for the 1975-76 year. However, there was nothing in the contract that precluded plans for retrenchment for the 1976-77 year.

In early 1975, partially because of the Department of Education's dissatisfaction with the retrenchment provision in the 1974 contracts, it conducted retrenchment simulations at two of the state colleges. At the time the governor's budget request was released in March 1975, the Department was well on the way to understanding how retrenchment could be effected in the state colleges. Based on the assumption that the colleges might be operating on a budgetary "deficit" of $16.7 million during 1975-76, which would carry over into 1976-77, the Department proceeded to develop guidelines for personnel retrenchment to be effective September 1976.

The twelve retrenchment guidelines are included in the appendix, but the four more important provisions are listed below.

First, retrenchment projections for 1976-77 were based on the projected discrepancy between funds needed and funds available for 1975-76. Each college was given a prorated budgetary "deficit" for which it would have to compensate by personnel cutbacks. The guidelines provided that if actual salary increases were higher or lower than projected for the coming year, retrenchment requirements might be decreased or increased as appropriate.

Second, the following priorities were to be considered in the retrenchment of teaching faculties: (1) protection of new state college

missions approved by the state college planning commission and the board of state college and university directors in January 1975; (2) affirmative action; and (3) other programmatic considerations, including complementarity of academic programs among the various state colleges in a given geographic area of the state. Seniority appeared to be given fourth priority.

Third, retrenchment of management and nonteaching professional positions was to occur at approximately one and one-half times that of the teaching faculty (later changed to a rate equal to that of the teaching faculty), and nonacademic personnel would be retrenched in direct proportion to the total number of all positions to be reduced at the college.

Fourth, the guidelines provided that following the submission of retrenchment lists on June 30, 1975, each president could then submit a statement concerning alternative cost-saving approaches designed to reduce retrenchment. The retrenchment plan was subsequently labeled Plan A and the alternatives to retrenchment, Plan B.

With great regret and reluctance, the Board of State College and University Directors approved the guidelines on May 15. The state college presidents pressed the Department of Education to allow submission of Plan B prior to the submission of the retrenchment list (Plan A), but the Department remained convinced that significant economies could no longer be achieved in nonpersonnel areas. (Significant reductions in nonpersonnel areas had been made in previous years). One president indicated that he could achieve the cost reduction required of his college without retrenchment, and that the manner in which savings could be accomplished should be left to the individual institutions. He publicly announced his intention not to submit Plan A and was theatened with dismissal if he did not comply with the Department's directives.

Following the submission of the Plan B proposals (alternatives to retrenchment), the Department of Education and the institutions worked together to minimize the need for retrenchment through cost savings in other areas. The result of these efforts was a new plan (Plan C) that combined cost savings through nonpersonnel cutbacks and attrition, which significantly reduced the number of involuntary retrenchments. The Secretary of Education, having told the legislature in spring 1975 that there was little room left for nonpersonnel cutbacks, has since indicated that he was embarrassed by the amount of cost savings achieved in nonpersonnel areas in Plan C. In fact, sufficient savings were achieved to cut the number of positions dropped

back to 500, including 300 through natural attrition and voluntary early retirements. On September 8, 1975, the deadline for retrenchment letters, 200 personnel (including eighty-two faculty) were informed that they would be involuntarily retrenched as of September 1976, unless budgetary conditions improved. Seven of the state colleges achieved sufficient cost savings in other areas to avoid involuntary retrenchments altogether.

The faculty union protested this retrenchment of eight-two faculty members and proceeded to contest several aspects of the retrenchment process via the contractual grievance procedure. The first of its grievances, which actually preceded the issuance of the retrenchment guidelines in 1975, asserts that the state administration had improperly failed to provide adequate funding for the two state college faculty contracts. Second, the union filed eighty-two individual grievances on behalf of the faculty who were due to be retrenched in September 1976. Third, it filed a three-part policy grievance that alleged that the Commonwealth of Pennsylvania had failed to prove financial exigency to justify retrenchment; that tenured faculty could not be retrenched unless and until the Commonwealth had established just cause; and that the Department of Education's retrenchment guidelines did not comply with a retrenchment provision of the 1974 collective bargaining contract with the faculty.

After a series of maneuvers on the part of both management and the union and separate rulings by the Pennsylvania Labor Relations Board, an arbitrator ruled in January 1976 that:

> The Commonwealth was not required to prove financial exigency in order to proceed with retrenchment. There was a difference between retrenchment and termination and that tenured faculty were therefore unprotected by the provision in the faculty contract concerning termination of tenured faculty. (p. 53)

(This last ruling was on the substance of the contractual language itself).

The third part of the grievance concerning discrepancies between retrenchment guidelines and the faculty contract was never arbitrated because of an agreement that was eventually made on salaries and retrenchments in March of 1976. Although the details for the eventual settlement of these grievances are rather complex, the Commonwealth of Pennsylvania agreed to rescind the eighty-two retrenchment notices in exchange for a union agreement to hold across-the-board faculty salary increases to 3.83 percent for 1975-76 and 4 percent for 1976-77.

The 1976 Recommended Institutional Regulations on Academic Freedom and Tenure (RIR). The cases of the Pennsylvania State College and University System and SUNY (AAUP August 1977, pp. 237-260) illustrate that collective bargaining contracts often govern the processes to be used in staff reductions and/or retrenchments. The American Association of University Professors (AAUP) has attempted to provide some more general guidelines for institutions considering terminations. The recommended institutional regulations (RIR) were first formulated by the AAUP Committee on Academic Freedom (Committee A) in 1957. A revised and expanded text was approved by Committee A in 1968 and reflected the Association's standards and procedures set forth in a 1961 statement on recruitment and resignation of faculty members, the 1964 statement on the standards for notice of nonreappointment, and the 1966 statement on governance of colleges and universities, and subsequent standard and procedure statements (AAUP 1977, p. 15). The 1976 revisions were based on further definition of the standards and procedures of the Association as set forth in a number of statements given in 1971 and 1972. (For a discussion of the history of this and other AAUP statements, see Furniss 1977 and Furniss 1978).

The RIR is a rather detailed, lengthy set of recommendations consisting of fifteen separate sections and covering a wide variety of employment conditions. It includes a statement of terms of appointment, probationary appointments, discontinuance of action by the governing board, and procedures for the imposition of sanctions other than dismissals, among others. The discussion here is on sections 1, 2, and 4.

Section 1, Statements of Terms of Appointment, recommends that with the exception of special appointments clearly limited to a brief association and the reappointment of retired faculty, all full-time appointments to the rank of instructor or higher should be of two kinds: probationary and continuous tenure. Section 2 spells out the recommended terms and conditions of probationary appointments, including timelines for nonrenewals.

Of greater relevance here is Section 4, Termination of Appointments by the Institution. There are four legitimate criteria for termination or dismissal of faculty members on either probationary or tenured appointments. (Termination or dismissal means that the action occurs before the end of the specified term of employment, such as in the middle of a probationary faculty member's one-year appointment). They are as follows: (1) Demonstrable *bona fide* financial exigency, i.e., an imminent financial crisis that threatens

survival of the institution as a whole and that cannot be alleviated by less drastic means; (2) *bona fide* formal discontinuance of a program or department of instruction; (3) medical reasons; and (4) adequate case.

Section 5 of RIR sets down a number of procedural criteria that have to be observed in dismissal cases. Only the cases of financial exigency and program discontinuance not mandated by financial exigency are a major concern to us here.

Under conditions of financial exigency, the following principles should be observed according to RIR:

(1) There should be a faculty body that participates in the decision that a condition of financial exigency exists or is imminent and that all feasible alternatives to termination of appointments have been pursued.

(2) The faculty or appropriate faculty bodies should also exercise primary responsibility in determining the criteria for identifying the individuals whose appointments are to be terminated.

(3) The responsibility for identifying individuals whose appointments are to be terminated should be committed to a person or group designated or approved by the faculty.

(4) A faculty member who is terminated will have a right to a full hearing before a faculty committee.

(5) If the institution terminates appointments because of financial exigency, it will not make new appointments except in extraordinary circumstances where serious distortion in the academic program would otherwise result.

(6) The institution will make every effort to place the faculty member in another suitable position within the institution.

(7) Faculty members terminated will be given notice in accord with a schedule outlined in Section 8 or severance pay.

(8) The terminated position will not be filled by a replacement within a period of three years unless the released faculty member has been offered reinstatement.

In cases of discontinuance of programs or departments not mandated by financial exigency, RIR recommends the following:

(1) The decision to discontinue a program or department is to be based on educational considerations as determined primarily by the faculty and must reflect long-range judgments that the educational mission of the institution will be enhanced by the discontinuance.

(2) Before termination notices are issued, the institution will make every effort to place the faculty member in another suitable position.

(3) The faculty member may appeal a proposed relocation or termination and has a right to a full hearing before a faculty committee.

The Commission on Academic Affairs of the American Council on Education has prepared a critique of the RIR (Furniss 1977). Furniss argues that the term financial exigency is a phrase whose time has past. To avoid the confusion that is evitable when retrenchment policies rest on the phrase, colleges and universities should not use the term financial exigency, and the Commission believes it is particularly unfortunate that the AAUP has reaffirmed its faith in the term.

The Commission's concern about the document arises from three circumstances. First, since the term financial exigency is undefined, there is concern that when incorporated in the policies that may be considered part of the faculty member's contract, a court would be invited to provide its own definition that may be quite different from the definition the institution in good faith was following.

Second, the Commission is worried that RIR's definition might be accorded the status of common and accepted practice, such as other AAUP documents, when it should be regarded as *one source* of suggestions that institutions should consider when they seek workable ways to meet financial problems.

Third, the Commission believes there are certain deficiencies in the document itself. It argues that the definition is written such that termination for financial exigency is legitimate only when an entire institution is on the brink of bankruptcy and that terminations for program change are legitimate only when there are no financial considerations involved, that is, unless it is essentially an educational matter. The Commission believes there are too many intermediate positions between these two extremes and that "the matters dealt with are far too important and complex to be forced into the Procrustean bed of the RIR recommended institutional regulations and especially into RIR-4. Such forcing results in burying the essential definitional distinctions in two brief parenthetical notes" (p. 136).

The Commission also believes that the experience with difficult financial conditions is too limited and the issues are too complex to have the AAUP or anyone else produce a good *universal* policy and procedural statement.

The Commission points to a few other deficiencies in RIR, including the use of the vague term, "primary responsibility," a concept that also has been criticized by Mortimer and McConnell (1978, pp. 6-7). These criticisms focus attention on the usefulness of the AAUPs entire range of statements, first as guidance for institutional

policy, second as documents explicitly developed for adaptation as institutional policy, and third as guidance about standards of academic customs for use by a court of law (Furniss 1978). In contrast to the concern expressed by the Commission, Brown and Finkin, both of whom are advocates for the AAUP point of view, argue that "to the extent the standards of academic freedom and tenure built up by the AAUP over the past sixty years represent a body of persuasive professional opinion, the courts should give weight to them; if the standards are arbitrary or unreasoned, they should not" (1978, p. 44).

It is clear that the adequacy of AAUP statements and guidelines is becoming a major issue in the debate over what constitutes adequate processes and criteria in terminations and dismissals. In the next two sections, the major bases of legitimate termination given in AAUP guidelines are discussed; namely, program discontinuance and *bona fide* financial exigency. In both cases, the definition of what constitutes a legitimate base for action is important.

Program Discontinuance

In a time of declining resources, the discontinuance of some academic programs is an almost inevitable outcome of budget gaps and of such processes as academic program review described earlier. The decision whether or not to retain programs that do not meet or are low on specified criteria is an integral part of the entire academic review process.

Program closure is not *necessarily* a decision to dismiss tenured faculty. Indeed, the University of Michigan policy on discontinuance of academic programs specifically states that the university has never released tenured faculty members because of program closure. Further, if it should become necessary to release tenured faculty within a program to be discontinued, every effort would be made to place tenured faculty and staff in other suitable positions, perhaps through retraining.

It is equally clear that a decision to reduce the faculty or engage in reductions in force need not be a decision to close programs. As shown in the Pennsylvania State College and University case, the maintenance of program vitality is often a specific goal in retrenchment guidelines. The AAUP's report on the mass dismissals at the City University of New York (AAUP April 1977, p. 72) indicates that only one of the stages in a five-stage decisionmaking process was abandoning or curtailing programs. Davis and Dougherty (1978) have discussed five alternatives to program closure, including merger, trans-

fer to another unit, joint programs with another institution, and transferring the program to another institution.

It is also apparent that there are substantial technical, bureaucratic, and emotional barriers to be overcome when considering phasing out programs. Davis and Dougherty (1978) have identified six barriers to program closure: (1) lack of data base to interpret criteria; (2) time consuming involvement of academic officers, dean, and faculty members; (3) emotionalism and resulting decreased objectivity; (4) distrust by faculty due to lack of consultative processes; (5) ambivalence over making decisions; (6) political climate — public versus private institutions will vary on this.

The School of Allied Medical Professions — The University of Pennsylvania. A number of these barriers can be seen when, in January 1977, the Trustees of the University of Pennsylvania voted to phase out the School of Allied Medical Professions (SAMP) over a period of four years (Langfitt 1977). It is particularly interesting because the quality of two of the major programs in the school, physical therapy and occupational therapy, was not in question, and the entire school was generally considered to be a good one. (The academic programs in the school were concentrated at the undergraduate level.)

The University of Pennsylvania is a large Ivy League university located in Philadelphia. During the sixties, it experienced substantial growth in the number and size of the educational research programs, and in the seventies experienced great difficulty in meeting the budget gap. At the time of this case, the University was in the midst of a large capital gifts campaign based on two themes: (1) that the university was one entity because all of its schools and several of its teaching hospitals were on one campus and interdisciplinary and other school programs have had a long tradition; and (2) the university was committed to selective excellence. The definition of selective excellence varied substantially, but one view was that the university in general should have established criteria for excellence and hold each school to these criteria. Another view was that the colleges and the dean, not the central administration, should have responsibility for defining and exercising selective excellence.

The issue of the future of SAMP was posed when the dean resigned to take a similar post elsewhere because he believed the university would not commit the resources necessary to achieve excellence. The three department chairpersons within the school then insisted that the administration decide whether the school was within the mission of the university, and if it were, then the university

should provide the funds necessary for the school to continue to improve itself.

Over the next few months, a staff report was developed that attempted to gather as much information about the school and the professions represented in it, from which a set of options for the future of the school could be developed. Several options were identified: continuation without significant change; elimination of medical technology only; development of master of science programs; merger with the school of nursing; merger wtih the school of medicine; transfer of programs to another university; development of joint programs with another university.

The staff report was completed in January 1976, after which a long series of discussions within the university community commenced. In April, the vice president for Health Affairs recommended to the president that the school be phased out over a four-year period. The reasons he cited deserve citation:

> The reasons for my recommendation began with a description of the resources required to upgrade the School. Everyone had agreed that master's programs were necessary in order for the school to continue its position of eminence in allied health. The establishment of master's programs plus other improvements would result in a fifty percent increase in the direct expenses of the school. Since long-term federal or state funding of the programs was unlikely, and there was little chance that the school could raise significant sums of money from private philanthropy, it was clear that the university would need to reallocate unrestricted funds to SAMP from other units. In effect, selective excellence would be practiced in favor of SAMP and to the detriment of the schools of Medicine, Dental Medicine, Veterinary Medicine, and Nursing from which the funds almost surely would have been drawn. I concluded that this would be a mistake, because SAMP was not as important to the university as the other schools (Langfitt 1977, p. 5).

The opposition argued against closing the school because of the value of its graduates in serving demonstrated health needs, the fact that the professions represented in the school offer job opportunities in a period of high unemployment for graduates of liberal arts programs, and the good national standing of the school. Substantial external pressure was put on the university to reject the recommendation; also an internal steering committee of the university council was opposed to closing the programs.

A major factor in the success of the recommendations, according to Vice President Langfitt, was the time spent by the Health Affairs Committee of the Board of Trustees in examining the staff reports and in engaging in subsequent discussion over the issue. "There is

no doubt in my mind that this was a major reason for the success of the recommendation. Although all of the trustees recognize the fiscal implications of the decision, and many of them had urged the administration to practice selective excellence, when it came down to it, they had the greatest difficulty in recommending that a school of good quality and public value be eliminated from the university" (p. 6).

Another major factor was that very large sums of money, much larger than the amounts requested by the department chairmen, would probably be needed for SAMP to take its place with other schools and develop graduate programs.

The vice president believed that there were three principal reasons why the recommendation succeeded: (1) an open process that included students and faculty from SAMP throughout the university; (2) the existence of a formal mechanism for faculty review; and (3) extensive involvement of the trustees throughout the process.

> Far and away the most important reason for the opposition to the recommendation was the elimination of a school that ranked well within its peer group and educated young men and women for specific jobs that were useful to society. I am frank to admit that more than once these issues almost caused me to trip on my own ambivalence. However, the guiding principle that we used from the beginning, the principle that led ultimately to the decision by the Board of Trustees to phase out the school, was selective academic excellence in an era of shrinking resources — a university that was making ends meet for the moment but had little flexibility, because it had limited venture funds — and a university that risked a general decline in quality unless it reduced its scale. I believe the large majority of the faculty which had little to say throughout the process wanted the administration to succeed in closing the school, thereby exercising selective excellence, but they wanted the university to succeed only against vigorous opposition so the administration would not try it again soon (p. 8).

We are reliably informed that no tenured faculty were terminated as a result of this closure. Most faculty moved to positions in other institutions; three tenured faculty were retained. The case illustrates some general questions that arise in program closure situations (Davis and Dougherty 1978, p. 3).

First, where does the authority for closing programs rest? For example, it was clear in the University of Pennsylvania case that the Board of Trustees had to make the ultimate decision to actually close the School of Allied Medical Professions. It is equally clear that a strong recommendation on the part of key university administrators was instrumental in helping the board to arrive at the decision. In other universities and colleges, the role of the board in this matter

might be less clear. The logical outcome of some of the decision-making and reallocation processes described earlier in this paper may well be a decision on the part of a dean to close a specific program. The University of Michigan's policy on "Discontinuance of Academic Programs" discusses this point.

> The ultimate responsibility for the discontinuance of a program rests with the Board of Regents. They are given legislative authority for the operation of the University; however, they may delegate sub-legislative powers to various university authorities. . . . Although, the pattern of this consideration and evaluation will depend upon the traditions, practices and style of each School or College, the recommendation for closure of a program should emanate from the Dean and/or the Executive Committee (pp. 2-5).

The policy goes on to recommend procedures that are applicable for program discontinuance specifically applicable to the University of Michigan (see Appendix).

The second major question to be answered is what are the criteria that should be used in making program closure decisions? These criteria are similar to those used in the academic program priority of literature presented earlier.

The third major question is what are the safeguards given to faculty and staff under program closure? In practice, these safeguards range from a few months notice to the more elaborate safeguards recommended by the AAUP. The University of Michigan has stated that existing guidelines have been established within the university to give faculty and staff adequate notice and the right to a hearing. Every effort is also made to assist in relocation and retraining of staff affected by program closure.

The fourth question is the safeguarding of students when affected by the termination of a program. Precipitous termination of programs would result in significant hardship to students currently enrolled, and the college or university must make an effort to ease those hardships. It is often necessary to phase termination of a program over a reasonable length of time so students have maximum opportunity to either finish their degree program or transfer to another university. The University of Michigan takes the view that no new admissions ought to be made without significant consultation once a program has been identified for elimination.

In summary, program closure is one of the conditions for acceptable termination of tenured or untenured staff. The decision to close a program may be part of a general response to conditions of financial exigency, a subject to which we now turn.

Financial Exigency

We have already argued that the term financial exigency is overused, and that the postsecondary education community would be better served by adopting more precise terminology. Several institutions have developed statements on the general topic of financial stress, reductions in force, and so forth.

Fulkerson (no date) gives six examples of statements prepared by institutions relative to conditions of financial distress or exigency. The reader may be interested in the various titles of these policy statements:

"Relating to Position Reduction Under Financial Exigency"; "Lay-off and Recall Procedures"; "Policies and Procedures for Lay-off of Employees as a Result of Fiscal Year 1970-71 Budget Cuts"; "Fiscal Exigency Procedures"; "Introductory Statement for Policy and Procedures for Reduction-Reallocation in Force."

While these statements vary considerably in length and content, there are a number of standardized clauses. Some of the statements include definitions, such as the following: "reductions — reallocations in force shall refer to the reallocation of faculty positions among, and the reduction of consolidation in or in part of, academic units or subunits, and the concomitant termination from employment or transfer of faculty members, necessitated by budgetary crisis, legislative mandate, or other cause" (p. 57).

A number of statements define who has the authority to initiate reductions, and who has the authority to finally approve them. It is common that provision be made for notice of termination, the rehiring of faculty members terminated, and aid in securing other employment much like those recommended in the AAUP guidelines.

What constitutes *bona fide* action? The national debate is still in process, but there are some directions.

The Concept of Bona Fide Action — The AAUP has concentrated its attention on the concept of *bona fide* action in cases of financial exigency and program closure. Jordan Kurland, Associate General Secretary of the Association, has stated:

> The termination of a faculty position because of *bona fide* financial exigency or *bona fide* reduction of program is not, nor was it ever meant to be, the same kind of formidable undertaking as dismissal for cause. The necessity for the reduction must be shown, and certain considerations of due process come into play, but it is neither required or desirable in such cases to demonstrate that an individual once judged fit to occupy a permanent position on the faculty no longer possesses such fitness (1972, p. 306).

There are, of course, certain procedural and other recommendations made by the Association, specifically that careful and meaningful faculty participation throughout the process be achieved.

There are several treatments of good faith in the literature and we can only summarize some of them here (Mix 1978; Peterson 1976; and Leder 1975). Most writers agree that although the issues have been inadequately framed, court cases provide the most useful guidelines available.

In the *AAUP vs. Bloomfield College*, the details of trustee termination of eleven tenured faculty members for reasons of financial exigency are reviewed. Bloomfield is a small sectarian commuter college with a tenure plan. When the college dismissed eleven tenured faculty, it placed all other faculty members on one-year terminal contracts, thus effectively ending its tenure system. According to Peterson, the faculty brought an action for declaratory relief claiming that the administration's actions were not demonstrably *bona fide*, defined as having been taken under extraordinary circumstances. After review of the cash-flow situation of the college and its liquidity, the court declared that the college could not be pronounced exigent, although an appellate court did not agree. Peterson's analysis of the case is important to the discussion.

> The trial court in *Bloomfield* conceded the college's financial status was poor but ordered reinstatement of the faculty, because the university failed to demonstrate that its action was "in good faith related" to a condition of financial exigency within the institution. A variety of evidence was cited to support the court's findings: internal memoranda written by Bloomfield's president that evidenced an anti-tenure motive, placing the entire faculty on one-year terminal contracts when that action did not alleviate the fiscal problems, failure to utilize remedial measures such as across-the-board salary reductions, terminations of tenured faculty and sale of real estate holdings, hiring twelve new faculty without adequate justification, and failure to seek faculty advice on new program developments. Although these facts are peculiar to the Bloomfield case, they are indicative of evidence which might help ascertain good faith in other cases (1976, p. 426).

According to Leder (1975), in *Johnson vs. Board of Regents* a different court sustained faculty dismissals. The Wisconsin legislature reduced by 5 percent the base budget for the University of Wisconsin system and required a decrease in enrollment in the system's campuses. The University created a procedure for determining faculty members that could be laid off and an appeal procedure and then laid off thirty-eight tenured faculty members. In the resulting court case, the plaintiffs claimed that the University's method of determin-

ing which faculty would be terminated violated procedural due processes guaranteed by the 14th amendment, and that the Wisconsin statute required written charges or allegations of inefficiency or bad behavior. Eventually the court ruled that the 14th amendment of the U.S. Constitution required only protection from termination or layoff for constitutionally impermissible reasons and from termination or layoff that was wholly arbitrary and unreasonable.

Mix (1978, p. 19) argues that these court cases present no clear-cut tests to define exigency. Peterson (1976) suggests that the courts must allocate the burden of proof as to the existence of financial exigency and of good faith dismissal. His conclusion presents some invaluable distinctions for institutions concerned with this issue. "In view of the institution's reliance on the existence of a financial exigency as grounds for dismissal and its possession for the records necessary to prove such a condition, the institution should be required to prove that an exigency actually existed. However, if the institution meets this burden, the faculty member should then be required to establish that he was dismissed for reasons other than financial exigency" (pp. 431-432).

In summary, the current state of practice and precedent is that an institution should be prepared to document financial exigency if it wants to use exigency as grounds for dismissal. The institution should also be prepared to defend itself against charges of arbitrary and capricious behavior.

Summary and Conclusions

Most of the comments in this paper have been analytic rather than prescriptive, so a summary or conclusion might seem problematic. But we believe that at least nine summary statements or recommendations can be made based on our analysis of likely trends in institutional behavior as colleges and universities approach the decade of the 1980s.

First, national discussion of demographics focuses too simplistically on decline in the numbers of college-age youth without concomitant attention to the different sectional and regional growth statistics and the superior competitive position of certain types of institutions. It is clear that some regions of the country will continue to be a growth environment in the 1980s because they are experiencing net gains in migrants. It is also clear that certain kinds of institutions are in a strong competitive position; consequently, their enrollments are likely to remain constant over the next ten years (Carnegie Foundation 1975).

Further, since the early 1970s, most institutions have been under serious pressure to reallocate resources internally to meet shifting student demand. Within large, complex multiuniversities, colleges of business, engineering, and some other "professional" schools or majors are experimenting with devices to limit their enrollments and the number of majors until resources are shifted to cover increased student loads. Administrators are trying to cope with these trends by authorizing the use of more temporary or part-time faculty but are reluctant to commit "hard" or permanent tenure-eligible lines to cover what may turn out to be temporary (five-year) fluctuations in student preferences.

Second, concentration on the projected decline in enrollments diverts attention from the continuing "cost-income squeeze" faced by most institutions. In fact, one of the major challenges facing administrators and faculty in the 1980s will be how to maintain financial stability in an era of declining enrollments and increasing costs. Enrollments and tuition levels are revenue-generating forces, and even if an institution is able to manipulate them in a favorable way, it cannot escape the cost pressures discussed earlier. The public and private university examples clearly demonstrate the potential for budget gaps *even if both types of institution experience stable en-*

rollments. Unfortunately, the national discussion has not adequately prepared the post-secondary education community to deal with challenges that are likely to result from these forces.

Third, there is little flexibility in most institutional budgets because colleges have been adjusting to the cost-income squeeze since the early 1970s. One cannot overestimate the importance of flexibility in responding to changing environmental conditions and student preferences; consequently, major efforts will have to be made to *recapture* institutional flexibility in the 1980s. While individual institutions will want to examine carefully their revenue structure and determine what growth potential there might be in admissions, tuition and fees, as well as other income sources, it is difficult to see how these institutions can escape the necessity of continued expenditure-control policies. We believe, however, that continuation of the cut, squeeze, and trim mentality will lead to the gradual deterioration of quality in postsecondary institutions. We consider it imperative that each institution develop procedures and criteria for selected program closures, reductions in force, and internal reallocations.

Fourth, there is a need to clean up some of the terminology related to what constitutes legitimate bases for reducing the size of staff or closing programs. Financial exigency is only one of them. We have already argued that there needs to be more precise terminology to describe conditions of financial exigency and that program balance, cost control, and the maintenance of financial equilibrium are also legitimate grounds for action.

Fifth, patterns of faculty-administrative interaction will undergo severe stress when considering reductions, reallocations, and retrenchments. Traditional governance mechanisms in postsecondary education have been deliberative rather than action-oriented and are ill-equipped for reaching decisions on "whose ox is to be gored." The internal politics of reduction decisions are intense and there is likely to be a value conflict over the appropriate decisionmaking mechanisms. For example, under a number of collective bargaining contracts, reduction in force decisions are clearly a management right and administrators have to bargain over the impacts of these reduction decisions, not on the decision to actually reduce. It is our opinion that traditional governance procedures (faculty senates and their like) that attempt to arrive at specific reduction decisions are likely to prove futile (for an interesting case, see Moore 1978).

Sixth, there is no way to free administrators from the necessity of hard decisions in the area of reductions, reallocations, and retrench-

ments. We believe, however, that most administrators are not prepared for all the consequences that follow from decisions that require adjustments in individual and departmental aspirations. We have already indicated that faculty morale will be seriously affected by decisions to retrench, reduce, and reallocate. On the other hand, it is appropriate that administrators be held accountable for their actions in making such decisions. Such accountability requires the following conditions:

> (1) Disclosure. Those affected by administrative decisions hold the decisionmakers accountable only if there is a full public access to the records of the decisionmaking process.
>
> (2) The right of petition by those affected by decision.
>
> (3) A regular, widely understood process for reappraising the competence of administrators in assessing the community's confidence in their integrity (Mortimer and McConnell 1978, p. 179).

Seventh, it is difficult to overestimate the need for strategies that will *increase* institutional flexibility. Decisions to retrench or discontinue programs constitute only one aspect of this strategy. Institutions also should examine their budgetary and control procedures with the intent of increasing their ability to respond to new opportunities. The University of Michigan's Priority Fund constitutes one example of how such flexibility might be enhanced. However, the alternatives considered must take into consideration the history, culture, and operational procedures that are specific to each institution's situation.

Another aspect of these strategies must also include the reconsideration of procedures that link the institution's budgetary and planning processes. Such linkage has proven to be notoriously difficult, although it constituted the core of program budgeting procedures. The University of Michigan example illustrates a relatively centralized view of this linkage. There are, however, a number of alternatives to this perspective; for instance, a highly decentralized position on the relationship of planning and budgeting underlay the University of Pennsylvania's decision to terminate the School of Allied Medical Professions.

Eighth, institutions must strive to develop a consistent philosophy that synthesizes its strategy for the 1980s. Reducing the rate of growth in faculty salaries, program discontinuance, and retrenchment should be part of a coordinated effort to adapt to a turbulent environment. The development of a consistent institutional philo-

sophy constitutes the primary task that will enable the institution to coordinate these activities.

Such a philosophy must take into account the institution's position in its environment. Realistic answers should be sought to such questions as:

(1) How realistic is the assumption that projected enrollment declines will not occur at your institution? There is widespread agreement that there will be an enrollment decline but most institutional presidents believe *their* institution will not experience them (Moore 1978, p. 624).

(2) What are strengths and weaknesses of each institution's own academic programs? The answer to this question will require an assessment of one's competitive position on such factors as program quality, student demand, and the costs of delivery.

(3) What are the strengths and weaknesses of the institution's graduate and research programs? The answer to this question will require an assessment of one's competitive position on such factors as faculty quality, societal need, and institutional incentives for seeking outside research support.

Ninth, within these environmental constraints, the institution must adopt goals with operational meaning. If one can assume that there is a hierarchy of terminology relative to missions, purposes, goals, and objectives, each institution must be specific enough to arrive at goals that have operational meaning (Richardson 1978; Kieft 1978). In several institutional documents and plans, the purposes are broadly stated to be the education of youth or the preparation of young people who are critical thinkers. Missions are often stated as teaching, research, and service. We think that such generalized platitudes are not enough for the 1980s.

Although the precise definition of goals will vary, there are some examples to illustrate what we mean (Kieft 1978). Public universities should decide what percentage of the eligible high school graduates it seeks to enroll. All universities and colleges should seek guidelines or establish goals for enrollment levels by program and continuously monitor them to see whether they should be readjusted in light of subsequent enrollment and/or other trends.

The adoption of precisely stated goals leads to the identification of the value dimensions along which these goals may be placed (Balderston 1974). Synthesizing these various value dimensions is the key to the development of a consistent institutional philosophy. Such a synthesis provides the various campus constituencies with a guide for their actions and the core of the reciprocal relationship between

the institution and the larger society. Without such a synthesis, the institution will be solely the product of its environment, not a shaper of it.

Appendix A: Checklists for Academic Quality Assessment and Program Evaluation

Assessment of Academic Quality

I. Criteria for and indicators of academic quality in conventional scholarly disciplines

(1) Student input quality: ability of incoming students

(2) Student academic achievement during university career
   a. Absolute achievement of individual student
   b. Absolute achievement: minimum passing standard
   c. Achievement relative to initial status

(3) Student maturation and capacity for responsibility in career and in society
   a. Value transformations
   b. Rounded experience
   c. Career persistence and success: student "destinations" initially and after five, ten, twenty years

(4) Institutional capability in field
   a. Total size of faulty cadre
   b. Borrowing of strengths from related groups
   c. Specializations
   d. Quality of faculty
      1. stars
      2. solid journeymen
      3. senior unknowns (deadwood ratio)
      4. vital younger members
   e. Achievement in research
   f. Availability of critical resources
      1. extramural research funding
      2. pertinent library, computer, and other basic resources
      3. specialized resources: laboratories, building space, support personnel

(5) Faculty vigor and quality
   a. Major publications — amounts and perceived quality and usage (citation indices)

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[1]F. E. Balderston. In *Managing Today's University*. San Francisco: Jossey-Bass, Inc., 1974, pp. 283-7.

b. Success rate in obtaining peer-judged research grants
c. Generalized opinion ranking (Cartter and Roose-Andersen ratings)
d. Officers, editors, members of editorial boards of scholarly societies and journals
e. Members of evaluation panels in research funding organizations
f. Entering graduate students receiving competitive national fellowship
g. Applicants of high quality for postdoctoral study and research intervals
h. Honorific appointments (measures of conventional distinction) — Guggenheim, NAS, Nobel, others

(6) Faculty and program cohesion, relative to the tradition in the field
a. Joint papers and research
b. Other team efforts, including:
1. organized research
2. departmental committee structure and operation

(7) Progressiveness in graduate training and research
a. Research effort and achievement focused upon major frontier issues in the discipline
b. Closeness of these projects and graduate courses and seminars to frontier issues
c. Availability and use of instrumentation and methodology in frontier issues
d. Rankings over time on opinion and reputation indices

(8) Mechanisms for imputing academic quality
a. Use of above indicators
b. Visiting committees of prominent scholars to evaluate department
c. Reading of a national sample of doctoral dissertations in field to see whether outstanding ones come from department or outside; reading of all accepted dissertations for a year in department

II. Criteria for and indicators of academic quality in graduate professions
(1) For academic reputation, use I
(2) Market rating of graduates at time of degree completion
a. Starting salaries in first jobs

b. Recruiter interviews of pending graduates
c. Judgments of a sample of prominent professionals of the promise of graduates

(3) Early success of graduates
a. E.g., in law schools, law-clerk appointments with prominent judges
b. Early professional leadership
1. membership in professional organizations and societies
2. involvement in community organizations, politics, other "action" spheres
c. Career location after five, ten, twenty years
1. working in same field
2. independently established
3. dropouts and disappearances
4. advancement: salary, title, etc.

(4) Institutional and faculty relations with practitioner communities
a. Use of faculty members as advisors by practitioner enterprises, professional groups, federal agencies, other agencies
b. Generalized opinion ranking by prominent practitioners (analogous to Cartter and [illegible]ose-Andersen ratings — usually not available but can be obtained by setting up surveys)
c. Faculty involvement in practitioner and professional societies
d. Reformist impact on practitioner outlook and standards
e. Origination of journals by faculty; reputation and role of such journals

(5) Areas of distinction nationally
a. Coupling of instruction and a research program in a prominent area of concern
b. Approbation by scholars in basic disciplines
1. collaborative efforts with basic-discipline scholars
2. judgments of scholarly reputation of professional school faculty in special areas

(6) *Strength of image* — distinguishing characterization by other professional schools in field, practitioner communities, prospective students

Overall Evaluation of Academic Programs

Assessment of the current quality of an academic program (using

indicators of the sort described in the previous section) is important, but it is only one ingredient in decisions about the future of an academic program — decisions that involve funding, enrollment, allocations of faculty positions, and, on occasion, phasing out a program.

Eight criteria for program evaluation were enunciated by the priorities committee at Princeton University (Bowen 1972) and were quoted and discussed in Chapter Five. The following checklist includes these and other considerations.

(1) Significance of scholarship and findings in the field to the quality of culture, the future of science, or long-range issues of public policy
   a. External priority: interest in funding shown by foundations, research agencies, other agencies of the federal and state governments, and private donors
   b. Judgments of importance by national policy-study commissions or other bodies and by leading scholars within university

(2) Manpower considerations — long-range forecasts of academic and other employment of recipients of advanced degrees
   a. Employment prospects relative to current size of all programs in field
   b. Enrollment of highly qualified students and employment of those earning degrees from program

(3) Importance of program to students and faculty in related fields at university
   a. Choice of this program as part of curriculum of students in other programs

(4) Resources employed in program at current level
   a. Direct operating budget allocations
   b. Extramural research and training funds attracted by faculty
   c. Requirements of program
      (1) building space and major equipment
      (2) support services
      (3) library support
      (4) other significant induced costs
   d. Projections of future resource costs to maintain current level

(5) Unit costs and efficiency
   a. Services provided to other programs and departments
   b. Estimates of cost per student year and cost per degree granted

68

(6) Requirements for improving quality or expanding program beyond current level

a. Institutionally budgeted resources: faculty positions, support, space, equipment

b. Faculty and administrative leadership

c. Special efforts and costs to attract outstanding students and to attract greater total enrollment

(7) Effects of withdrawing resources if there are negative indications concerning current quality of the program and importance of the field to the university

a. Direct reductions of expenditures for each of several years after a decision to reduce or terminate

b. Reductions or increases of costs by related departments

c. Reductions of revenue directly attributable to the program for each of several years after a decision to reduce or terminate

d. Adverse constituency responses to a termination decision (considering all affected constituencies, external and internal)

Appendix B: Guidelines for Use in Planning Retrenchment In the State Colleges and University of Pennsylvania

Guideline 1

The Secretary of Education shall establish a process for insuring continuous, timely communication concerning retrenchment planning between the Department of Education and the colleges, including refined interpretations of these guidelines.

Guideline 2

The Secretary of Education shall provide each college with "retrenchment targets" to be used for retrenchment planning.

Guideline 3

The president shall arrange, meet and discuss conferences directly with college representatives of APSCUF and, through the Secretary of Administration, with representatives of other state college employees in organizations having collective bargaining relationships with the commonwealth.

Guideline 4

If positions must be retrenched at a college, the impact shall be distributed among all position classifications of employees. Specifically, this means positions classified as:

A. state college and university managers
B. civil service managers
C. state college and university administrators
D. Association of Pennsylvania State College and University Faculties, Unit II
E. American Federation of State, County, and Municipal Employees; Pennsylvania Nurses Association; United Plant Guard Workers of America; Pennsylvania Association of State Mental Hospital Physicians, and Federation of State Cultural and Educational Professional Units
F. Assocation of Pennsylvania State College and University Faculties Unit I

However, the impact shall be equitably applied to each of these classifications in accordance with subsequent guidelines.

Guideline 5

All existing documents relevant for retrenchment discussions at each college shall be made available when needed for meet-and-discuss conferences or for related retrenchment planning.

Guideline 6

The retrenchment of teaching faculty positions shall be considered sequentially in accordance with the substeps of this guideline, recognizing, however, that each decision made at each step is a tentative one that may be reconsidered at any stage prior to the preparation of the final, proposed college plan. The final decisions with regard to the positions to be abolished and the specific employees to be terminated shall be made by the president, who shall give careful consideration to the advice and recommendations made through meet-and-discuss conferences and other conferences during retrenchment planning. The impacts of retrenchment upon the academic status or students shall be reduced to the smallest levels possible.

Guideline 7

In preparation for the final retrenchment plan, as it affects teaching faculty, the president shall, after all discussions have been held and recommendations made, determine:

(1) the net teaching faculty positions to be retrenched;
(2) the departments of organizational units to be in relatively protected status, and those to be relatively open to reduction in positions;
(3) the proportions of net retrenchment to be contributed by each department or organizational unit to achieve the targeted number of reductions.

Guideline 8

Pursuant to the Commonwealth's affirmative action program and related laws, orders, and rules, affirmative conditions of employment for women and minorities shall be maintained in determining which persons are assigned to the positions remaining after the retrenchment discussions and planning have resulted in a projection of reduced employment. The pre-retrenchment percentages of representation of white males, women, and minorities in each bargaining unit shall be maintained after the final layoff lists have been prepared. (APSCUF Unit I and Unit II shall be considered separate bargaining units.)

Guideline 9

Each president shall insure that the processes used to identify the persons to be laid off in APSCUF Unit I are designed to give priority consideration in the following order: the commitment level of appointment (temporary employees should be considered first); seniority according to the requirements of appropriate organizational units; and the protection of subspecialties within the organizational unit affected by retrenchment.

Guideline 10

Each president shall insure that the processes used to identify the persons to be laid off in bargaining units other than APSCUF Unit I are designed so that the needs of the college will be met effectively after retrenchment.

Guideline 11

Each college shall maintain all of its personnel programs and practices in its usual manner subsequent to the notification of employees of layoff status on September 8, 1975.

Guideline 12

Within two weeks after the publication of these guidelines, the Secretary of Education shall distribute a statement concerning alternatives to retrenchment. The statement shall include specific suggestions for use by the college in their retrenchment planning.

Appendix C: 1976 Recommended Institutional Regulations On Academic Freedom and Tenure

Section 4: *Termination of Appointments by the Institution*

(1) Termination of an appointment with continuous tenure, or of a probationary or special appointment before the end of the specified term, may be effected by the institution only for adequate cause.

(2) If termination takes the form of a dismissal for cause, it will be pursuant to the procedure specified in Regulation 5.

Financial Exigency

(3) (a) Termination of an appointment with continuous tenure, or of a probationary or special appointment before the end of the specified term, may occur under extraordinary circumstances because of a demonstrably *bona fide* financial exigency, i.e., an imminent financial crisis which theatens the survival of the institution as a whole and which cannot be alleviated by less drastic means.

[NOTE: Each institution in adopting regulations on financial exigency will need to decide how to share and allocate the hard judgments and decisions that are necessary in such a crisis.

As a first step, there should be a faculty body which participates in the decision that a condition of financial exigency exists or is imminent, and that all feasible alternatives to termination of appointments have been pursued.

Judgments determining where within the overall academic program termination of appointments may occur involve considerations of educational policy, including affirmative action, as well as of faculty status, and should therefore be the primary responsibility of the faculty or of an appropriate faculty body. The faculty or an appropriate faculty body should also exercise primary responsibility in determining the criteria for identifying the individuals whose appointments are to be terminated. These criteria may appropriately include considerations of age and length of service.

The responsibility for identifying individuals whose appointments are to be terminated should be committed to a person or group designated or approved by the faculty. The allocation of this responsibility may vary according to the size and charac-

ter of the institution, the extent of the terminations to be made, or other consideration of fairness in judgment. The case of a faculty member given notice of proposed termination of appointment will be governed by the following procedure.]

(b) If the administration issues notice to a particular faculty member of an intention to terminate the appointment because of financial exigency, the faculty member will have the right to a full hearing before a faculty committee. The hearing need not conform in all respect with a proceeding conducted pursuant to Regulation 5, but the essentials of an on-the-record adjudicative hearing will be observed. The issues in this hearing may include:

(1) The existence and extent of the condition of financial exigency. The burden will rest on the administration to prove the existence and extent of the condition. The findings of a faculty committee in a previous proceeding involving the same issue may be introduced.

(2) The validity of the educational judgments and the criteria or identification for termination; but the recommendations of a faculty body on these matters will be considered presumptively valid.

(3) Whether the criteria are being properly applied in the individual case.

(c) If the institution, because of financial exigency, terminates appointments, it will not at the same time make new appointments except in extraordinary circumstances where a serious distortion in the academic program would otherwise result. The appointment of a faculty member with tenure will not be terminated in favor of retaining a faculty member without tenure, except in extraordinary circumstances where a serious distortion of the academic program would otherwise result.

(d) Before terminating an appointment because of financial exigency, the institution, with faculty participation, will make every effort to place the faculty member concerned in another suitable position within the institution.

(e) In all cases of termination of appointment because of financial exigency, the faculty member concerned will be given notice of severance salary not less than as prescribed in Regulation 8.

(f) In all cases of termination of appointment because of financial exigency, the place of the faculty member concerned

will not be filled by a replacement within a period of three years, unless the released faculty member has been offered reinstatement and a reasonable time in which to accept or decline it.

Discontinuance of Program or Department Not Mandated By Financial Exigency

(4) *Termination of an appointment with continuous tenure, or of a probationary or specified appointment before the end of the specified term, may occur as a result of bona fide formal discontinuance of a program or department of instruction. The following standards and procedures will apply.*

(a) The decision to discontinue formally a program or department of instruction will be *based essentially upon educational considerations, as determined primarily by the faculty as a whole or an appropriate committee thereof.*

[NOTE: *"Educational considerations" do not include cyclical or temporary variations in enrollment. They must reflect long-range judgments that the educational mission of the institution as a whole will be enhanced by the discontinuance.*]

(b) Before the administration issues notice to a faculty member of its intention to terminate an appointment because of formal discontinuance of a program or department of instruction, the institution will make every effort to place the faculty member concerned in another suitable position. If placement in another position would be facilitated by a reasonable period of training, financial and other support for such training will be proffered. If no position is available within the institution, with or without retraining, the faculty member's appointment then may be terminated, but only with provision for severance salary equitably adjusted to the faculty member's length of past and potential service.

[NOTE: When an institution proposes to discontinue a program or department of instruction, it should plan to bear the costs of relocating, training, or otherwise compensating faculty members adversely affected.]

(c) A faculty member may appeal a proposed reallocation or termination resulting from a discontinuance and has a right to full hearing before a faculty committee. The hearing need not conform in all respects with a proceeding conducted pursuant to Regulation 5, but the essentials of an on-the-record ad-

judicative hearing will be observed. The issues in such a hearing may include the institution's failure to satisfy any of the conditions specified in this section. In such a hearing a faculty determination that a program or department is to be discontinued will be considered presumptively valid, but the burden of proof on other issues will rest on the administration.

Appendix D: Policy Document on Discontinuance of Academic Programs at the University of Michigan

The continuing intellectual vigor and distinction of the University will depend in some measure upon our capacity to provide critical and timely reviews of all existing programs and to adapt them in the light of changing intellectual interests, professional developments, social needs, and relative academic strengths and priorities. In a period of financial stringency, such review becomes of particular importance, not least because most new programs will have to be developed by replacement rather than addition and partly because it becomes difficult to strengthen weak or limited programs by accretionary funding.

Our success in withstanding the financial adversity of the last few years has been due in part to our willingness to make hard decisions involving differential cuts and allocations, not only among different units of the same School or College, but also among the Schools, Colleges, Centers and Institutes themselves. It is our intention to strive to maintain the distinction of the University by continuing this system of careful scrutiny, judicious planning, and careful budget allocation. Only in this way can we preserve and enhance the quality of our various programs.

From time to time during this proces of review, evaluation, and planning, we shall find that a particular program raises concerns which may appear to justify its reduction or even its elimination. It is for this reason that we now offer the following procedures which will apply in cases of program termination.

If it is decided that a program should be considered for elimination, then procedures and policies are needed to answer four different questions:

(1) What criteria should be used in making these decisions?
(2) Who should decide which programs to eliminate?
(3) What safeguards should be given to tenured and nontenured faculty, and other employees, if a program is eliminated?
(4) What safeguards should be given to students in the program?

I. *What Criteria Should Be Used?*

A program may be eliminated because it fails to meet the requirements of a particular School or College for academic excellence. This

is consistent with an AAUP recommendation that decisions should reflect long-range judgments about the educational mission of the unit and not cyclical or temporary variations in enrollment. Such long-term considerations will generally involve the analysis of financial resources and needs of the program and the parent unit.

Recommended Criteria—

(1) Criteria for determining whether a program should be eliminated ought to place the greatest emphasis on the quality of the program involved. Is the program of quality and scope appropriate to the School or College mission? Such assessment should take into account the quality of the faculty, the value and particular character of the program and the performance of its students.

(2) Is the program under consideration too costly in relation to other educational and program needs of the School or College? Here the total resources, not just general and/or instructional funds, must be considered. This consideration should also involve present and projected enrollments, and societal needs. Is the program so central and valuable that its high costs and low enrollment are acceptable alternatives to closing?

(3) Is a comparable program offered at another institution within the State of Michigan?

(4) Can the program be made less costly or combined with other units to bring it more in line with the role and mission of the School or College? Alternatively, should it be relocated outside the parent School or College, in some other unit, or as an independent unit within the University?

(5) Does the program have a significant service-value to other units within the University?

II. *Who Should Decide?*

The ultimate responsibility for the discontinuance of a program rests with the Board of Regents. They are given legislative authority for the operation of the University; however, they may delegate sub-legislative powers to various University authorities. For example, Regents' Bylaw 5.02 states ". . . the governing faculty shall be in charge of the affairs of the School or College, except as delegated to the executive committee, if any . . ." Also, "The faculty of each School and College shall from time to time recommend to the Board for approval such regulations as are not included in these Bylaws and which are pertinent to its structure and major operating pro-

cedures, such as departmental organization. . ." (Bylaw 5.03). Also, the dean and/or Executive Committee of a School or College "shall be charged with the duties of investigating and formulating educational and instructional policies for consideration by the faculty and shall act for the faculty in matters of budgets, promotions and appointments" (Bylaw 5.06). The matter of program discontinuance will almost always involve consideration and evaluation of both curricular and budgetary matters. Although the pattern of this consideration and evaluation will depend upon the traditions, practices, and style of each School or College, the recommendation for closure of a program should emanate from the Dean and/or the Executive Committee.

The following procedures are consistent with current AAUP Recommended Institutional Regulations on Academic Freedom and Tenure, which state that judgments about programs are the "responsibility of the Faculty or of an appropriate Faculty body."

Recommended Procedures—

(1) From time to time, the Dean and/or Executive Committee of a School or College or the governing faculty of that unit or the Vice President for Academic Affairs may consider that a particular program* may no longer be viable, or may be more effective if reorganized in some way. Periodic program reviews may also lead to a similar conclusion. In all such cases, an independent assessment of the quality and viability of a program by a peer review should then take place prior to recommending that a program be considered for discontinuance. In identifying a review committee, the Dean and/or Executive Committee should consult with the faculty and should consider a mechanism that would include colleagues outside the University community as well as faculty within the school and University. In cases where there is a dispute within the School or College concerning the constitution of an appropriate peer review group, the Office of the Vice President for Academic Affairs will consult both the parties and will determine the composition of the peer review group. Such reviews will be conducted so that there will be maximum opportunity for early and meaningful consultation with faculty and students and timely action in relation to admissions, appointments and the budget cycle.

*Because of differing terminology among the Schools and Colleges concerned with departments, divisions, programs, etc., the more generic term, program, is used here. Its precise application is left in the hands of the Dean and/or Academic Vice President.

(2) The Dean and Executive Committee of each School or College may then, after consultation with the governing faculty, recommend to the Vice President for Academic Affairs that a program be considered for elimination. They will also notify the members of the program and the governing faculty when such a recommendation has been formulated.

(3) With the approval of the Vice President for Academic Affairs, the Dean, if he has not already done so, should then set up a consultative process with the program, the governing faculty and other affected parties, both inside and outside the program, discussing with them the factors used to determine the proposed "phase out" of the program and other alternatives which may be proposed for reorganization of the program. In appropriate cases, consultation with other institutions may be arranged.

(4) The Vice President shall also submit such statements of financial exigency as may be included in the recommendation for assessment to an ad hoc committee, with members from the Office of Academic Affairs, the Budget Priorities Committee and SACUA.

(5) The results of the various reviews and recommendations should then be forwarded to the Vice President for Academic Affairs.

(6) The review of the Vice President for Academic Affairs will be made in a prompt and timely fashion, bearing in mind the effects of prolonged debate on the individuals and units involved. Full opportunity will be provided during the review for public and private consultation and the receipt of written comments.

(7) In the light of these discussions, the Vice President for Academic Affairs will make a decision on the future of the program, which shall be brought as a recomendation to the Regents.

III. *What Safeguards Should Be Given To Faculty and Staff?*

Existing guidelines have been established within the University to give faculty and staff adequate notice, and rights of a hearing. Every effort will also be made to assist in relocation and retraining of staff affected by discontinuance of a program.

Recommended Procedures—

A. Instructional Staff

(1) Existing procedures for notice of non-reappointment for nontenured instructional staff should be followed when a program is scheduled for termination.

(2) The University has never released tenured faculty members because of program closure. The maintenance of tenured faculty and of essential instructional and supporting services remains the highest priority of the University. If, however, at some future time, it should become necessary to release tenured faculty members within a program to be discontinued, the following procedures will apply.

a. Every effort should be made to place tenured instructional staff members in other suitable positions. If a reasonable period of retraining of the affected staff member would qualify him or her for another position within the University, then such retraining and relocation should be negotiated.

b. In cases where it is not possible to continue the appointment of a tenured faculty member, as described in a. above, the procedures of Regents' Bylaw Section 5.09 will be available and severance pay will be provided if required under Regents' Bylaw Section 5.10.

B. Non-instructional Staff

Existing procedures for reduction in force will be followed for noninstructional staff who are affected by the decision to terminate a program (see appropriate Standard Practice Guide).

IV. *Safeguards for Students*

Because students are severely affected by the termination of a program, the following procedures will be observed:

(1) Although completion of the degree or transfer cannot be guaranteed by the University, every effort will be made to accommodate student needs. So as to give students a maximum opportunity either to finish their work or to transfer to another program, the termination of a program should be phased over a period of reasonable length.

(2) If and when the Vice President for Academic Affairs has approved the recommendation of the Dean and Executive Committee of the School or College to consider a program for elimination, no new admissions ought to be made without consultation with the Vice President for Academic Affairs and also, where appropriate, the Dean of the Graduate School.

(3) Opportunity should be given to students for participation in the review of programs proposed for termination.

Appendix E: Financial Exigency and Staff Reduction

(Statement adopted by the Board of Directors of the Association of American Colleges, November 1971)

> The 1940 *Statement of Principles on Academic Freedom and Tenure*, which was co-sponsored and endorsed by the Association of American Colleges, recognizes that an institution may find it necessary to curtail or eliminate an academic program for reasons of financial exigency. Such program retrenchment may require termination of probationary and/or tenured members of the faculty. The 1940 Statement, which applies only to tenured faculty, provides in this regard that 'termination of a continuous appointment because of financial exigency should be demonstrably bona fide.'
>
> The principles and procedures stated below are commended to institutions facing the necessity of curtailing education programs and terminating tenured or probationary staff appointments.

A college or university must dedicate all of its resources to the greatest possible achievement of its educational goals and purposes. Fiscal policy should reflect this commitment. In meeting this commitment unfavorable economic conditions may require an institution to reevaluate its priorities and reallocate limited financial resources. When it becomes necessary to curtail or eliminate some educational programs and terminate some staff appointments, the importance of such decisions to an institution, its students and the members of its academic staff requires the closest possible coordination of fiscal and academic planning. In particular, fair and effective procedure should be designed, if possible, before a crisis develops.[1]

In situations where curtailment or elimination of educational programs may be necessary for reasons of financial exigency the following guidelines may be useful.

(1) *Consultation* — Early in the process of making recommendations or decisions concerning program reduction, administrators and faculty policy groups should consult widely with their colleagues, students and others in the college community. It is especially important that faculty members whose educational programs or positions may be adversely affected have an opportunity to be heard by those who will make the final decision or recommendation.

[1]It is recommended that institutions inform all faculty appointees in writing at the time of their initial employment of the conditions under which appointments may be terminated for reasons of financial exigency.

(2) *Data and Documentation* — Every effort must be made to determine the nature of the fiscal limitations and within those constraints to establish appropriate educational priorities. Careful documentation of the evidence supporting a staff reduction decision is essential. Appropriate financial information, student-faculty ratios, qualitative program and course evaluations, enrollment data, and other pertinent information should be used to support a case of financial exigency. Except for confidential material of a personal nature this information should be widely shared among the college community.

(3) *Timing* — Institutions should provide as much lead time as possible in making financial exigency decisions. In cases where faculty appointments are to be terminated timely notice of termination or non-reappointment must be given.[2] In extreme situations, if timely notice cannot be given, financial compensation to the faculty member proportional to the lateness of the notice may be an appropriate substitute for full notice.

(4) *Academic Due Process* — When program reductions in response to financial exigency involve termination of faculty appointments special care must be taken to insure fairness and to protect and honor accepted procedures and rights appropriate to a faculty member's tenured or probationary status.[3] Faculty members must have an opportunity to be heard by those who will make the staff reduction decisions and those decisions must be subject to review by the highest institutional authority. Care should be taken not to confuse termination because of financial exigency with a proceeding that might lead to dismissal for cause.[4]

[2]Although not formally endorsed by AAC, the AAUP "Standards of Notice for Nonreappointment" (*AAUP Bulletin*, Winter 1967, Vol. 53, No. 4, p. 407) have been widely accepted by the academic community.

[3]In this regard consult the AAUP "1968 Recommended Institutional Regulations on Academic Freedom and Tenure," paragraph 4c (*AAUP Bulletin*, Winter 1968, Vol. 54, No. 4, pp. 448-452) and "Procedural Standards in the Renewal and Nonrenewal of Faculty Appointments" (*AAUP Bulletin*, Summer 1971, Vo. 57, No. 2, pp. 206-210). These AAUP policy statements have not been formally endorsed by AAC.

[4]There may be some temptation to seize upon financial exigency as an occasion to remove an allegedly incompetent staff member. In the latter case the appropriate proceeding is a dismissal hearing and the faculty member is entitled to the protections and standards of due process set forth in the 1940 *Statement of Principles on Academic Freedom and Tenure* (Association of American Colleges Bulletin, March 1941, Vol. 27, No. 1, pp. 1227-129, or *AAUP Bulletin*, Autumn 1970, Vol. 56, No. 3, pp. 323-326) and the *Statement on Procedural Standards in Faculty Dismissal Proceedings (Association of American Colleges Bulletin*, March 1958, Vol. 44, No. 1, pp. 125-130, or *AAUP Bulletin*, Winter 1968, Vol. 54, No. 4, pp. 439-441). Both of these statements have been endorsed by AAC.

(5) *Elimination of a Faculty Position* — If an appointment is terminated before the end of the period of appointment, because of financial exigency, or because of the discontinuance of a program of instruction, the released faculty member's place should not be filled by a replacement within a period of two years, unless the released faculty member has been offered reappointment and a reasonable time within which to accept or decline it.[5]

(6) *Preferential Treatment* — Tenured members of the faculty should normally be retained in preference to probationary appointees. This preferential status should include wherever possible an opportunity to transfer or readapt to other programs within the department or institution. If retention is not possible, the institution should assume responsibility for assisting the faculty member in securing other employment. Preferential retention of tenured faculty should not, however, leave a reduced academic unit in the highly undesirable situation of lacking any probationary faculty. In some cases, tenured and probationary faculty may both have to be reduced.[6]

(7) *Alternatives* — Early retirement and transfer from full-time to part-time service may be acceptable alternatives to termination in some situations of financial exigency. However, such decisions should be governed by the same guidelines and procedural safeguards as those which result in termination.

[5]The language of this paragraph parallels that of the AAUP 1968 "Recommended Institutional Regulations on Academic Freedom and Tenure" (see footnote 3).

[6]Other considerations may also be germane in planning reductions which would force the institution to contradict its own goals and priorities or bring it into conflict with public policy. Strict adherence to preferential retention of tenured faculty members or strict recognition of seniority, for example, may result in disparate rates of reduction for women or members of ethnic and racial minorities and thus jeopardize recent progress toward fairer representation of these groups in the academic community. Staff reduction decisions may also raise problems in relation to laws and regulations governing discrimination.

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